

THE FAMILY BUSINESS SUCCESSION MODEL: AN EXPLORATORY ANALYSIS OF
FACTORS IMPACTING FAMILY BUSINESS SUCCESSION PREPAREDNESS

by

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B.S., University of Utah, 1995
M.B.A., Syracuse University, 1997

AN ABSTRACT OF A DISSERTATION

submitted in partial fulfillment of the requirements for the degree

DOCTOR OF PHILOSOPHY

Department of Family Studies and Human Services
College of Human Ecology

KANSAS STATE UNIVERSITY
Manhattan, Kansas

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Abstract

The efficient operation and succession of family owned businesses plays a critical role in our national economic health. This study was built upon the Family Business Succession Model, which is based on family systems theory. The impact of owner characteristics, enterprise characteristics, business formalizing activities, family influence, access to resources, and external environmental conditions, all on the extensiveness of family business succession preparedness, was assessed. These results were moderated by the generation of the business. With an exploratory and descriptive methodology, primary survey data were obtained from family business owners in Missouri, Illinois, and Kansas. Research results provide family business advisors with important insight for developing recommendations around improving the extensiveness of family business succession preparedness, provide important policy implications, and serve as a basis for additional theory development in family business succession planning.

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Chapter 1 - Introduction

Statement and Significance of the Problem

The efficient operation and succession of family owned businesses plays a critical role in national economic health. Since the mid-1990s, small businesses have generally created 60% to 80% of the net new employment in the United States. Small businesses employ 57.4 million U.S. residents or 50.6% of the non-farm private sector workforce (Small Business Administration Office of Advocacy, 2009). Approximately 60% of all U.S. businesses are family owned and/or controlled in the U.S., and closer to 80% to 98% in less developed areas of the world where there are fewer public businesses (Astrachan & Shanker, 2003; Ward, 1987). Only a small portion of all newly established businesses continue more than three to five years. However, in difficult economic times, it is often the family business that survives. Survival is not necessarily because it is a good business, but because of the commitment of the family (Keough & Forbes, 1991). Yet, scholars have forecasted the demise of the family business in advanced economies (Dannhaeuser, 1993).

Family businesses are distinct and worthy of study because not only do they add significantly to the economy, but also they have been shown to outperform nonfamily businesses and last longer (Anderson & Reeb, 2003). For example, based on a decade of analyses, Return On Assets (ROA) is greater in family businesses, with a 6.65% greater return than nonfamily businesses; results are similar for Return On Equity (ROE) (Anderson & Reeb, 2003). Family businesses have transcended government and tax regimes. Worldwide, many family businesses are centuries old. The oldest family owned, continuously operating business in the U.S. is the Zildjian Cymbal Corporation of Norwood, MA, which was founded in 1623 in Constantinople and then moved with the family to the U.S. in 1929. Businesses like these provide evidence that

family businesses can survive over an extensive period of time. If family businesses have the resilience to last for longer periods, despite changing tax laws and political structures, then they should be studied to help understand the characteristics that contribute to the business longevity.

How a family maintains the business from generation to generation over decades and centuries is particularly important when one considers that not all family businesses have this level of longevity. Only 30% of family businesses survive into the second generation, 13% into the third generation, and 4% beyond the third generation (Ward, 1987). Understanding these statistics has proven difficult. Further analysis reveals that 20% of the businesses actually survived into the third generation. Of the remaining 7%, 5% were sold to outsiders and 2% went public (Ward, 1987). Through a transgenerational entrepreneurship perspective, this 7% would not be seen as a failure but rather likely a success, based on family goals and objectives (Ward, 1987). This previous research determined that if the business was no longer in the family, it constituted failure. However, the research did not measure the family objectives. Selling the business to purchase another business or to invest the funds to achieve a long-term return for the family should not constitute failure.

Succession is the number one concern of family business owners (Chua, Chrisman, & Sharma, 2003). Many of the first-generation family business owners who are a part of the Baby Boomer generation reached age 65 in 2011 and are considering retirement, fueling an interest in succession planning. However, despite the fact that succession planning is one of the most significant factors that determines successful continuity of the family business to the next generation, many family businesses do not plan for succession (Dyer, 1986; Lansberg, 1988; Ward, 1987). There can be ambivalence towards succession planning as it can impose significant changes on the family business in relationships, management, and ownership, as well as the

business's products and markets (Lansberg, 1988). Despite the low business transfer rate, the majority of small family business leaders express a desire to retain family control past their tenure (Astrachan, Allen, & Spinelli, 2002).

Leadership transfer is essential to continuing family ownership, ranking as one of the most important issues facing family businesses, and it must be addressed in order for the business to survive and successfully be passed on to subsequent generations (Handler, 1994). However, succession planning is more difficult in family businesses than in public companies due to a smaller pool of talent, complicating emotional factors between the incumbent and successor, and complex family social ties (Miller, Steier, & Le Breton-Miller, 2003). Business owners are well entrenched in their position and ownership often becomes a large part of their identity. In a sample of publicly traded U.S. businesses, the tenure of family business leaders was found to be almost three times longer than that of nonfamily executives (i.e., 17.6 years vs. 6.43 years, respectively; McConaughy, 2000). Further, not only is succession an issue of an owner letting go, preparing a successor, and transitioning the property and the power, but it is also an issue of doing so in a fashion that minimizes potentially stifling income, gift, and estate taxes, which have the potential to immobilize a business if not prepared for properly. In addition, U.S. Internal Revenue Code (IRC) family attribution rules make transfers to family members much more difficult than to nonfamily members.

Definition of Terms

To help understand the meaning of important concepts incorporated into this study, terminology will be defined in this section. First, words used interchangeably in the family business literature include business, firm, and company and will be referred to in this study as a *family business*, which will be defined as “a business governed and/or managed with the

intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families” (Chua, Chrisman, & Sharma, 1999, p. 25). For the purposes of this research study, it is necessary to expand this definition of business to all business interests held by a family that seeks to operate as an economic unit across generations (Zellweger, Norton, & Nordqvist, 2011). A more complete description of family business definitions can be found in the literature review.

Business structure refers to the formal legal structure of a business, such as an S-Corporation, C-Corporation, Limited Liability Company, or Partnership, which are a combination of U.S. business forms (Goergen, 2012). As part of this study, respondents are required to have a formal business structure. By requiring a formal structure, the likelihood is higher that the businesses are legitimate and can sustain family members, as opposed to being small home businesses that supplement income (Ward, 1987). A *share* refers to the stock of a business and the number of shares is determined at inception or recapitalization of the business according to the proportionate investment made by investors. Shares can be gifted or sold (Goergen, 2012).

The *ownership/membership control* refers to two or more members of a family or a partnership of families having over 50% of voting shares. One common transfer strategy is to create nonvoting ownership shares, which constitute ownership and rights to the ownership percentage of profits, but hold no decision-making authority. This allows an owner to transfer ownership, yet retain control. Conceptually, a shareholder could own 1% of the business and yet have all of the control. For purposes of the study, voting ownership interest is considered control, as opposed to only measuring ownership interest (Goergen, 2012).

Other terms that need to be defined for this study are *incumbent*, *potential successor*, and *succession process*. An incumbent is the corporate President or CEO. This person holds the top management position in a family business and must relinquish that position before another family member can take over (DeMassis, Chua, & Chrisman, 2008). A potential successor is any family member who could assume managerial control of a family business when the incumbent steps down (DeMassis et al., 2008). The succession process refers to the transfer of ownership or leadership from one generation to another (Dyer, 1986; Gersick, Davis, Hampton, & Lansberg, 1997; Ward, 1987). In addition, the events, actions, and developments affect the transfer of managerial control from one family member to another (Sharma, Chrisman, Pablo, & Chua, 2001). It should be noted that family succession not taking place should not be equated with failure of the succession process for any particular business organization because failure must be judged relative to potentially changing goals and market conditions (DeMassis et al.; Zellweger et al., 2011). By having the emphasis on the business organization, the focus becomes on whether that organization stays in business. However, based on the goals and needs of the family, selling that business at an opportune time and using the proceeds to purchase other businesses or investments to create a long-term family income stream may be a better solution and therefore more of a success than simply maintaining an organization multigenerationally. In other words, because an organization was sold does not constitute failure of the business organization.

A business is said to increase *business formality* by implementing practices that are often behind the scenes (i.e., not necessarily visible to customers) and not prevalent in all businesses, but which add to the legitimacy, consistency, and potentially increase the longevity of the business (e.g., a human resource function, use of a board, use of a mission statement, career

paths). While private companies have choices about the extent to which they formalize their businesses, ultimate formality is required of an exchange listed public company (Davis & Harveston, 1998).

The *business board* constitutes either a formal monitoring or advisory function for the business with at least partial independence from day to day business activity (The NACD Commission Report on Director Professionalism, 2011). Often family members constitute the business board. However, including at least two nonfamily members who can provide unique perspectives is recommended (Ward, 1987).

The U.S. Census Bureau's (2010) definition of *family* is a unit that consists of two or more people, one of whom is the householder, related by birth, marriage, or adoption, and residing in the same housing unit. For the purposes of this study, *family* in the family business is defined as a system of people who are related and operate strategically as an economic unit and is expanded to include siblings, cousins, aunts, uncles, as well as distant relatives (Poza, 2010). *Strategic family influence* is the influence on culture and decision making of family members who either: (a) work in the business, (b) have an ownership interest in the business, or (c) do not work in the business or have an ownership interest, but have influence over family members who do (Poza, 2010). *Entrepreneurship* is often associated with the business founder, but is also important for future generations. It is defined as being aware of and taking advantage of market opportunities to maintain business legitimacy and is associated with enterprises that may encompass multiple organizations (Poza, 2010). Business families may add new businesses, business units, and product lines, extending the ownership structure. Doing so may involve abandoning a lesser performing product or business. The sale or liquidation of a business may be the opposite of failure and necessary to sustain a competitive advantage and ensure longevity for

family-controlled business activity (Zellweger et al, 2011). In addition, there is a compression of ideas. In the past, an entire generation could work the same business and product lines. However, now products and ability to compete can become obsolete quickly, necessitating more attention by family businesses and quick reaction times to take advantage of market opportunities (Zellweger et al.).

The *business life cycle* includes the internal development of the business in terms of five stages: (a) start-up, (b) rapid growth, (c) growth, (d) maturity, and (e) decline and the determination of where in a life cycle a business is at any point in time (McGivern, 1978). The *industry life cycle* refers to the same five stages of: (a) start-up, (b) rapid growth, (c) growth, (d) maturity, and (e) decline. Rather than looking internally to the business, the analysis is done externally on the industry of the business at a point in time (McGivern, 1978).

In the U.S., how businesses are transferred in families can be greatly impacted by the estate and gift tax structure. Estate tax is a tax typically due on the death of a single individual or the second death of a married couple, and these taxes are due within nine months of death (Poza, 2010). We are currently under The Taxpayer Relief Act of 2012. The act provides an individual applicable exclusion amount (i.e., an amount that can be passed to individual beneficiaries without incurring estate tax) of \$5.25 million in 2013, increasing by inflation, with a 40% tax for amounts above this exemption amount. This means that a couple could potentially pass \$10.5 million before estate tax becomes an issue. An equivalent gift tax exemption can be used during one's lifetime, which decreases the estate tax exemption simultaneously. In 2013, an individual can use a \$14,000 annual per person exclusion gift, which increases by inflation in \$500 increments. Everything above this amount on a per person basis decreases the amount of gift tax exemption available and a gift tax (informational) return is filed. Once the full exemption

amount is exceeded, gifts larger than the annual exclusion amount will incur an immediate gift tax. Part of successful succession planning involves ensuring there is enough liquidity to pay any estate taxes due upon the death of the business owner, resulting from having a business value that may exceed the exemption amount. Strategies to transfer business shares to family members during a lifetime impacts gift tax planning. Since the business may represent a high percentage of the owners' net worth, not having liquidity to pay taxes can potentially put a strain on business intergenerational transfer. The tax structure can act as a large motivation for succession preparedness (Poza, 2010).

Summary

A review of the literature laid a foundation for describing the importance of distinguishing between family and nonfamily businesses in order to understand the additional layer of dynamics that, if addressed, can enable them to survive at higher rates. In order to benefit family business practitioners, family business owners, researchers, and policy makers, factors influencing the extensiveness of succession preparedness were analyzed in this study. Research results provide important insight for developing recommendations around family business succession preparation, important policy implications, and a basis for new theory development. Based on both the literature review and the theoretical framework, exploratory and descriptive questions and hypotheses were developed to build upon the work of Davis and Harveston (1998) and Westhead (2003) to address the relationship between the extensiveness of succession preparedness and owner characteristics, enterprise characteristics, business formality, family influence, access to resources, and external environmental conditions, with owner business generation acting as moderating variable.

This study adds to the Family Business Succession Model by putting the model within the framework of family systems theory. As a result, the model contains three interacting factors (i.e., family, owner, and enterprise) and three additional factors (i.e., external economic environment, business formality, and access to resources) all of which impact the extensiveness of business succession preparedness. In addition, the study adds to the literature by addressing the leadership style of the primary owner, expanding on what is meant by business formality, utilizing the Family – Power, Experience, and Culture (F-PEC) scale to measure family influence, placing added emphasis on the family business board as a potential driver of succession preparedness, and measuring intent to work as an enterprising family, as opposed to putting emphasis only on the succession of a business organization. The following research questions and hypotheses were developed for this study.

Research Question 1: What are the majority owner characteristics in a family business (i.e., age, education level, marital status, income from the business, percentage of household income the business represents, percentage of household net worth tied up in the business, intention to keep operating as an economic unit multigenerationally, intention to keep the business in the family intergenerationally, and leadership tendency) that affect the extensiveness of business succession preparedness, moderated by the business owner generation?

Hypothesis 1.1: When the owner is older, the extensiveness of business succession preparedness will increase.

Hypothesis 1.2: When the owner has a higher level of education, the extensiveness of business succession preparedness will increase.

Hypothesis 1.3: When the owner is married, the extensiveness of business succession preparedness will increase.

Hypothesis 1.4: When the owner has higher income from the business, the extensiveness of business succession planning will increase.

Hypothesis 1.5: When the owner has a higher proportion of household income from the business, the extensiveness of business succession preparedness will increase.

Hypothesis 1.6: When the owner has more net worth in the business as a percentage of total net worth, the extensiveness of business succession preparedness will increase.

Hypothesis 1.7: When the owner has intent to continue operating as a family economic unit multigenerationally, the extensiveness of business succession preparedness will increase.

Hypothesis 1.8: When the owner has intent to keep the business in the family, the extensiveness of business succession preparedness will increase.

Hypothesis 1.9: When the owner has a participative leadership style, the extensiveness of business succession preparedness will increase.

Hypothesis 1.10: The relationship between ownership characteristics and the extensiveness of business succession preparedness will be moderated by the generation of the business.

Research Question 2: What are the enterprise characteristics in a family business (i.e., CEO tenure, anticipated CEO tenure, business age, number of employees, business size, business lifecycle, business revenue, business book value, business market value, and

corporate performance) that affect the extensiveness of business succession preparedness, moderated by the business owner generation?

Hypothesis 2.1: When family businesses have longer CEO tenure, the extensiveness of business succession preparedness will increase.

Hypothesis 2.2: When family businesses have shorter CEO tenure before anticipated retirement, the extensiveness of business succession preparedness will increase.

Hypothesis 2.3: When family businesses are older, the extensiveness of business succession preparedness will increase.

Hypothesis 2.4: When family businesses have more employees, the extensiveness of business succession preparedness will increase.

Hypothesis 2.5: When family businesses are larger, the extensiveness of business succession preparedness will increase.

Hypothesis 2.6: When family businesses have higher business revenue, the extensiveness of business succession preparedness will increase.

Hypothesis 2.7: When family businesses are in the growth stage of the business cycle, the extensiveness of business succession preparedness will increase.

Hypothesis 2.8: When family businesses have higher business book values, the extensiveness of business succession preparedness will increase.

Hypothesis 2.9: When family businesses have larger business market values, the extensiveness of business succession preparedness will increase.

Hypothesis 2.10: When family businesses have higher corporate performance, the extensiveness of business succession preparedness will increase.

Hypothesis 2.11: The relationship between enterprise characteristics and the extensiveness of business succession preparedness will be moderated by the generation of the business.

Research Question 3: What affect do business formalizing activities (i.e., use of established mission statement, a written strategic plan, having a board, regular board meetings, using outside board members, a board that requires a succession plan, having an organizational chart, formal compensation plans, written job descriptions, an employee handbook, an employee review process, an employee career path, a key management development plan, and a buy/sell agreement) in a family business have on the extensiveness of business succession planning preparedness, moderated by the business owner generation?

Hypothesis 3.1: When family businesses use an established mission statement, the extensiveness of business succession preparedness will increase.

Hypothesis 3.2: When family businesses use a written strategic plan, the extensiveness of business succession preparedness will increase.

Hypothesis 3.3: When family businesses have a board, the extensiveness of business succession preparedness will increase.

Hypothesis 3.4: When family businesses have regular board meetings, the extensiveness of business succession preparedness will increase.

Hypothesis 3.5: When family businesses use outside board members, the extensiveness of business succession preparedness will increase.

Hypothesis 3.6: When family businesses have a board that requires a succession plan, the extensiveness of business succession preparedness will increase.

Hypothesis 3.7: When family businesses have an organizational chart, the extensiveness of business succession preparedness will increase.

Hypothesis 3.8: When family businesses have a formal compensation plan, the extensiveness of business succession preparedness will increase.

Hypothesis 3.9: When family businesses have written job descriptions, the extensiveness of business succession preparedness will increase.

Hypothesis 3.10: When family businesses have an employee handbook, the extensiveness of business succession preparedness will increase.

Hypothesis 3.11: When family businesses have an employee review process, the extensiveness of business succession preparedness will increase.

Hypothesis 3.12: When family businesses have an employee career path, the extensiveness of business succession preparedness will increase.

Hypothesis 3.13: When family businesses have a key management development plan, the extensiveness of business succession preparedness will increase.

Hypothesis 3.14: When family businesses have a written buy/sell agreement, the extensiveness of business succession preparedness will increase.

Hypothesis 3.15: The relationship between business formalizing activities and the extensiveness of business succession preparedness will be moderated by the generation of the business.

Research Question 4: What affect does family influence (i.e., experience, culture, power, and spousal influence) in a family business have on the extensiveness of business succession preparedness, moderated by the business owner generation?

Hypothesis 4.1: When family ownership increases, the extensiveness of business succession preparedness will increase.

Hypothesis 4.2: When later generations own the business, the extensiveness of business succession preparedness will increase.

Hypothesis 4.3: When later generations manage the business, the extensiveness of business succession preparedness will increase.

Hypothesis 4.4: When later generations are active on the governance board, the extensiveness of business succession preparedness will increase.

Hypothesis 4.5: When family influence increases, the extensiveness of business succession preparedness will increase.

Hypothesis 4.6: When the family increasingly shares similar values, the extensiveness of business succession preparedness will increase.

Hypothesis 4.7: When the family and business increasingly share similar values, the extensiveness of business succession preparedness will increase.

Hypothesis 4.8: When family members increasingly support the business in discussions, the extensiveness of business succession preparedness will increase.

Hypothesis 4.9: When family members feel increasing loyalty to the business, the extensiveness of business succession preparedness will increase.

Hypothesis 4.10: When the family members are increasingly proud to tell others they are part of the business, the extensiveness of business succession preparedness will increase.

Hypothesis 4.11: When family members increasingly feel there is so much to be gained by participating with the family business in the long-term, the extensiveness of business succession preparedness will increase.

Hypothesis 4.12: When family members increasingly agree with the family business goals, plans, and policies, the extensiveness of business succession preparedness will increase.

Hypothesis 4.13: When family members increasingly really care about the fate of the business, the extensiveness of business succession preparedness will increase.

Hypothesis 4.14: When family members increasingly feel that participating in the business has a positive influence in their lives, the extensiveness of business succession preparedness will increase.

Hypothesis 4.15: When family members increasingly support family decisions regarding the future of the family business, the extensiveness of business succession preparedness will increase.

Hypothesis 4.16: When family members are increasingly willing to put in a great deal of effort beyond that normally expected to help the business be successful, the extensiveness of business succession preparedness will increase.

Hypothesis 4.17: When the owner's spouse involvement in the business increases, the extensiveness of business succession preparedness will increase.

Hypothesis 4.18: The relationship between family influence and the extensiveness of business succession preparedness will be moderated by the generation of the business.

Research Question 5: What effect does access to capital (i.e., in general, from family, internally from the business, or from external sources) have on the extensiveness of business succession preparedness, moderated by the business owner generation?

Hypothesis 5.1: When family businesses have more access to capital, the extensiveness of business succession preparedness will increase.

Hypothesis 5.2: When family businesses place more importance on access to family capital, the extensiveness of business succession preparedness will increase.

Hypothesis 5.3: When family businesses place more importance on access to internal business capital, the extensiveness of business succession preparedness will increase.

Hypothesis 5.4: When family businesses place more importance on access to external capital (i.e., loans, lines of credit) the extensiveness of business succession preparedness will increase.

Hypothesis 5.5: The relationship between importance of access to capital and the extensiveness of business succession preparedness will be moderated by the generation of the business.

Research Question 6: What effect do business external environmental conditions (i.e., metropolitan size, metropolitan growth prospects, external economic turbulence, tax environment, industry lifecycle, and regulatory requirements for a succession plan) have on the extensiveness of business succession preparedness, moderated by the business owner generation?

Hypothesis 6.1: When family businesses are located in large metropolitan areas, the extensiveness of business succession preparedness will increase.

Hypothesis 6.2: When family businesses are located in a metropolitan area with high growth prospects, the extensiveness of business succession preparedness will increase.

Hypothesis 6.3: When family businesses are seeing less economic turbulence, the extensiveness of business succession preparedness will increase.

Hypothesis 6.4: When family businesses are in growth industries, the extensiveness of business succession preparedness will increase.

Hypothesis 6.5: When family businesses have regulatory requirements requiring succession plans, the extensiveness of business succession preparedness will increase.

Hypothesis 6.6: When family businesses have a less favorable tax environment, the extensiveness of business succession preparedness will increase.

Hypothesis 6.7: The relationship between external environmental conditions and the extensiveness of business succession preparedness will be moderated by the generation of the business.

Research Question 7: What effect do owner characteristics, enterprise characteristics, business formality, family influence, access to capital, and external environmental conditions (the constructs of the Family Business Succession Model) have on the extensiveness of business succession preparedness, moderated by the business owner generation?

Hypothesis 7.1: The relationship between the Family Business Succession Model concepts (i.e., ownership characteristics, enterprise characteristics, business formality, family influence, access to capital, and external environmental factors) and the extensiveness of business succession preparedness will be moderated by the generation of the business.

Chapter 2 - Literature Review

This chapter will address the literature around family business, including: (a) the difficulty found among researchers in defining family business, (b) the impact of familiness, (c) factors of successful intergenerational business succession, (d) how owner and successor personal traits impact successful business succession, (e) gender issues in regards to succession, (f) generational effect, (g) leadership style, (h) business boards as a means of succession process monitoring, and (i) the main theories that have been used to explain family business succession. The Family Business Succession Model will then be introduced, as a basis to explain and measure the extensiveness of succession preparedness in family businesses.

Family Business

A family business is not consistently defined in the literature. Further, the full extent of family businesses employing non-farm private sector workers is unclear. It is dependent on various definitions placed on small family owned businesses in the literature. However, family business researchers believe that family businesses are different from nonfamily businesses, creating the need for theories of the family business (Ward, 1997). One such reason is that family interaction patterns are often transferred unconsciously to the business system (Danes & Olson, 2003).

Attributes that make family businesses unique from nonfamily businesses have been identified, including: (a) a culture of shared values, including a greater focus on building customer loyalty and a more active role in the community (Montgomery & Sinclair, 2000); (b) more customer oriented and quality focused (Poza, Johnson, & Alfred, 1998); (c) a higher level of trust (Dyer & Handler, 1994); and (d) a longer term perspective (Dyer & Handler, 1994).

Handler (1992) identified four ways in which researchers typically define family business: (a) degree of ownership by family members, (b) degree of management by family members', (c) degree of family involvement (Mayer, Davis, & Schoorman, 1995), and (d) potential for generational transfer. Dannhaeuser (1993) further specified that a family business must be owned and managed by at least two or more members of the same family, be a major source of family income, and employ no more than 50 people. In a study by Winter, Fitzgerald, Heck, Haynes, and Danes (1998), family business was specifically defined as one in which the owner was in business for at least a year, worked at least 6 hours per week in the business, was involved in day-to-day management, and resided with another family member.

Chua et al. (1999) suggested a business should be considered a family business based on two visions being met: (a) the dominant coalition with control over instituting change is family members, and (b) the vision for the business continues to operate as a means for achieving a desired future state of the family. They suggested that researchers have the most problem classifying the family managed, but not family owned business as a family businesses. As a result, a publically held company is the least acceptable form of family business. However, under Chua et. al.'s definition, both are acceptable. As indicated by Chua et. al., family business research should start by understanding the vision pursued by these businesses. Family involvement variables have been found to be weak predictors of family business behavior. However, the vision, intentions, and behavior of family businesses should be used to distinguish them from nonfamily businesses (Chua et al.).

Westhead and Cowling (1998) defined family businesses as those that self-identify as a family businesses. However, this method does not clarify what kinds of businesses classify themselves as family businesses. Based on this definition, a business can classify itself as a

family business based on one set of behaviors, while a business exercising the same behaviors may not consider itself a family business, creating inconsistencies in the results.

A number of researchers (e.g., Barach & Ganitsky, 1995; Birley, 1986; Ward, 1987) suggested that a business can only be viewed as a family business when there is intent to transfer the organization to the next generation. While intent to transfer an organization is an indication of its identification of a family business, lack of intent cannot necessarily disqualify a business from being a family business. A business that clearly operates with significant family influence should not be discounted because of a lack of intent to continue as such. The cash flow of the business and/or the retirement needs of the current generation may necessitate liquidation (Zellweger et al., 2011).

Addressing the dilemma of defining family business is critical in order for the study of family business to be considered a legitimate field in research circles (Astrachan, Klein, & Smyrnios, 2002). The use of a common definition would allow researchers to consistently look across studies for results, as opposed to having to stop and analyze how family businesses were defined in each study. This dilemma has resulted in a paradigm shift, in which some researchers seek to measure the level of family influence on a business as opposed to concrete external observations as to whether the business is a family or nonfamily business (Astrachan, Klein, & Smyrnios, 2002).

Measuring influence is done through developed and tested scales, such as the Factor – Power, Experience, and Culture (F-PEC) scale, which specifically measures family influence (Klein et al., 2005). This paradigm shift has resulted from the observation that as more family succession has been transpired, valuable business experience is added to the family and the business. The level of experiences gained from the succession process is the most impactful

during the shift from first to second generations where many of the capabilities and rituals are developed (Astrachan, Klein, & Smyrnios, 2002). This suggests that while defining multiple generational businesses as family businesses may not be difficult, the greatest challenge may lie with how to identify first generation businesses as family businesses. Astrachan, Klein, and Smyrnios (2002) also found that the number of family members directly involved in the business contributes to the experience dimension.

Zellweger et al. (2011) furthered this paradigm shift by suggesting the fallacy of solely relying on the succession of a single business organization as a measurement of whether it is a family business. Business entities can be bought and sold and the intent for the family to continue operating as an economic unit is a better measurement. They suggested a need to measure entrepreneurship within the family and the intent of the family to continue operating as an economic unit as a more appropriate measure than observations based on a single organization. By shifting from business to a family level of analysis, a deeper understanding of family businesses' ability to create value across generations is gained. Families may buy businesses, create new business divisions, sell businesses to harvest, and close down businesses to deploy assets elsewhere. Selling or closing a business may be the opposite of failure and necessary to sustain a competitive advantage and ensure longevity for family-controlled business activity through diversification and renewal (Zellweger et al.). On average, families in business were found to control 3.4 businesses, and shift industries 2.1 times during their tenure as a family business operating unit (Zellweger et al.).

To help researchers better identify appropriate samples, the family business system of classification needs further development and/or what has been developed needs wider acceptance. Therefore, it is left to the researcher to define what is considered to be a family

business. Definitions of family businesses need to include many factors as research based strictly on ownership and management control will not accurately predict or explain differences in performance (Dyer, 2006).

For purposes of this study, the definition of family business provided by Handler (1989) will be utilized with the exception of the specific intent to transfer the business to the next generation being replaced by intent to continue operating as a family economic unit (Zellweger et al., 2011). In addition, the definitions provided by Winter et al. (1998) will be expanded on to include: (a) at least two family members working at least 40% of full-time, (b) majority family voting ownership, (c) at least a 5-year business history (although not necessarily as the same organization), and (d) sufficient size to fully support the employed family members. The methodology of this study is to take a reasonable approach to defining family business based on what has been identified by previous research.

It is important to conceptually separate ownership effects and management effects because each may have different interests (Beatty & Zajac, 1987). Consequently, for purposes of this study, ownership and management will be differentiated where ownership will refer to majority ownership or control ownership of the business and management will refer to the key management team as identified by the owner.

A relationship between organizational size and the extensiveness to which succession has been planned has not been detected (Davis & Harveston, 1998). However, a larger business would have more resources to utilize external consultants for professional succession planning advice and would likely have adopted more formal structures. There are costs associated with intergenerational succession within the family during the lifetime of the owner, regardless of the method (i.e., funds required to pay accountants, consultants, and attorneys).

It has been estimated that up to be 33.6% of U.S. S&P 500 companies are family managed and still materially family owned (Anderson & Reeb, 2003). On average, 18% are still owned by the family, meaning there may be no limit to size of organization that could potentially fit the definition of a family business (Anderson & Reeb, 2003). However, the parameters of this study are set with the intent to study privately held family businesses. Business size can also be measured by number of employees. Although those standards can depend on industry and country, generally in the U.S., a small privately held business has less than 250 employees, a medium size business has less than 500 employees, and a large business has more than 1,000 employees (Small Business Administration, 2012).

Family Business Succession

At first thought, there is a wide array of potential options for how a business can transfer. However, upon closer examination, there are only eight, including: (a) sell the business to one or more key employees (may be family members), (b) sell to all employees using an Employee Stock Ownership Plan (ESOP), (c) sell to one or more co-owners (may be family members), (d) sell to an outside third party, (e) engage in an Initial Public Offering (the family may retain the public stock), (f) retain ownership but become a passive owner, and (g) liquidate. For purposes of this study, a succession plan that is other than to a family member does not indicate failure. The use of any of these transfer methods does not indicate a desire for the family to stop operating as an economic unit with a desire to reinvest proceeds into other business entities (Zellweger et al., 2011).

Business succession is inevitable because of finite lives and health of business owners. The process of planning for succession is often thought of as a "taboo topic" in family businesses as owners struggle to accept their own mortality and exhibit a reluctance to let go of power

(Applegate, 1994). Christensen (1953) provided a framework for succession planning by suggesting that the most typical elements that constitute a succession process are: (a) the identification of the potential successors, (b) showing commitment to succession and legitimizing the individual through the actual designation of the successor as the heir apparent, and (c) the communication to the designated successor and other key management of the designation. A more comprehensive succession process takes place when several possible successors have been considered (Vancil, 1987). Davis and Harveston (1998) suggested variables that can appropriately assess the extensiveness of the succession planning process, including not only whether a successor has been chosen, but also whether multiple people were considered, whether the owner(s) have informed the successor, and whether others have been informed.

Familiness

One of the factors that distinguishes family businesses from nonfamily businesses is *familiness*, which is the unique bundle of resources and capabilities that are distinctive to a business as a result of family interaction between the family, its individual members, and the business in the form of knowledge, social capital, and intentional trust (Habbershon & Williams, 1999). For a family business to be successful, the condition of interactions, resources, and capabilities that contribute to competitive advantage must be identified. Familiness enables a business to conceive of or implement strategies that improve its efficiency and effectiveness, potentially beyond that of competitors (Habbershon & Williams, 1999; Rutherford, Kuratko, & Holt, 2008). Chirico and Nordqvist (2010) suggested that a gap exists in understanding how such value is generated across generations, especially in markets where the competitive landscape quickly shifts, prompting change in order to survive. Knowledge is critical, but in and of itself is

not enough to remain competitive over time and must be enhanced by high levels of social capital, emotional involvement in the business, and intentional trust. Paternalism (i.e., those in authority restricting the rights of those not in authority) and its relation to family inertia has been found to be crucial for family businesses' transgenerational value creation (Chirico & Nordqvist, 2010).

Because family businesses often transition to family members who have significant tenure in the business, there is an increased opportunity to pass on knowledge and social capital that is retained within the business. Knowledge in family businesses is defined as explicit and tacit knowledge, which family members have developed through education and experience within and outside the business (Chirico, 2008). Cabrera-Suárez, De Saá-Pérez, and Desiderio (2001) suggested tacit knowledge is embedded in the founder and is a strategic asset that a family business can develop and transfer more effectively than a nonfamily business. This results from a unique relationship between successor and predecessor that transcends work and includes personal and family issues that do not exist in nonfamily businesses (Chirico, 2008).

Intentional trust among relatives is one of the most distinguishing features of a family business organizational form (Dyer & Handler, 1994; Habbershon & Williams, 1999). Frequent social interactions result in an opportunity for families to create heightened trusting relationships. The family business's features (e.g., commitment, shared values, culture, trust, and reputation) provide strategic resources and capabilities that could account for its long-term success (Habbershon & Williams, 1999). Fiegener, Brown, Prince, and File (1994) found that when comparing the approaches of family and nonfamily businesses to a successor's development, family businesses exhibit more personal, direct approaches focused on relationships for the

successor's development, while nonfamily businesses exercise more formalized and detailed procedures with a focus on tasks.

Successful Family Business Succession

A majority of small family business leaders have expressed a desire to retain family control past their tenure (Astrachan, Allen, & Spinelli, 2002), suggesting that keeping the business in the family is a predominant desire despite other options. However, some owners are reluctant to transition the family business to a younger generation of family members (Sharma, Chua, & Chrisman, 2000). Family owned businesses can successfully transition when a high level of willingness to engage in the succession planning process is present. An increased level of willingness to engage in succession planning can be more prevalent if an owner's interests are consistent with an orderly management transition, and as the owner's age and financial stake in the business increases (Davis & Harveston, 1998). Businesses are better off by planning a smooth and orderly management and ownership transition and benefit from making such efforts clear (Beatty & Zajac, 1987).

The ability of a family business owner to internally transfer management of the business to another family member involves "conscious and deliberate action, as well as unconscious and unintended action" (Goffee, 1996, p. 40). Sharma, Chrisman, and Chua, (2003) studied 118 family businesses to identify the most important succession issue, using the theory of planned behavior. It was determined that the presence of a trusted successor who is willing to take over the leadership of a business was the critical component that controls the succession planning process. As a result, there is a need to engage next generation family members in succession planning because their careers and livelihoods that are involved in this decision (Sharma & Chrisman, 2004).

Cabrera-Suárez et al. (2001) suggested that succession is a multi-stage process, not an isolated event, that includes involvement of the successor in the business and a simultaneous decrease in time the predecessor is involved in the business until a real transfer of power in the organization takes place. It is a slow, evolutionary, and mutual role adjustment process between the founder and the next generation family member in which the successor enters the business at a lower level and eventually assumes top management functions and receives appropriate training (Cabrera-Suárez et al.). A slow and subtle process of role adjustment between the incumbent and successor is critical (Handler, 1994). Succession planning should begin as early as 20 years before or the moment a CEO assumes his or her job (Barach & Gantisky, 1995; Ward, 1987). Ideally, succession should be timed to coincide with when the successor is well prepared, the business is in good condition, and economic turbulence is not extreme. The health, educational progress, and age of the parties are also crucial timing factors (Dyer, 1986). Dyer (1986) suggested a need for flexibility when a succession transfer takes place as a result of uncertainty around the preparation level of a successor or external economic turbulence. Furthermore, having set long-term succession dates may keep the business from transferring to the next generation at an opportune time.

Success in the actual outcome of the succession process can be measured by the subsequent positive performance of and viability of the business and the satisfaction of the stakeholders with the process (Sharma et al., 2001; Morris, Williams, Williams, Allen, & Avila, 1997). When a business leader is replaced, significant disruption can result. Disruption responses have been found to explain 20% of the variance in family business revenues (Olson et al., 2003). Consequences can result in the structures, processes, and management as a result of a

destabilizing effect on routines, which bring uncertainty for internal and external stakeholders (Boyne, James, John, & Petrovsky, 2011).

Boyne et al. (2011) addressed the contingency view of succession which postulates that the effect of a new leader depends on the baseline organizational performance before he/she begins. In poorly performing businesses, capacity enhancing effects will outweigh disruptive effects, resulting in a rise in business performance. However, the effect of a new leader in a highly performing business will likely result in a decrease in business performance. Harvey and Evans (1995) suggested that different family business leadership replacement motivations impact business results. On one hand, political appointments may satisfy family stakeholders (i.e., key employees, family members) although damaging the bottom line. On the other hand, a technically competent and independent successor may hurt and anger family members (Le Breton-Miller, Miller, & Steier, 2004).

Steier (2001a) addressed how tacit knowledge from social capital is transferred during leadership succession and how various succession methods influence post-succession performance. He defined tacit knowledge as situation specific knowledge gained through experience and actions that is more difficult to transfer than explicit knowledge because explicit knowledge is based on the facts and theories that can be codified. Steier (2001a) identified several modes of succession and transference of social capital across generations when there is an unplanned sudden succession resulting from unanticipated events or changes in the current management structure. Through natural immersion, the incumbent and the successors gradually assimilate the nuances of the network relationships. Finally, in planned transfers, business leaders proactively attempt to introduce successors to the social networks of the business, in order to pass the social capital to the next generation.

Steier (2001a) suggested that more than half of family businesses that experienced unexpected succession disruptions indicated a low level of preparedness. Through the family Fundamental Interpersonal Relations Orientation (FIRO) model, Danes, Rueter, Kwon, and Doherty (2002) suggested that families possessing a stored social capacity for resilience are more adaptable when disruption occurs because the store of trust and creativity in problem solving enable quick adaptation to new situations. They suggested addressing family business issues in priority sequence with inclusion issues as the starting point to find resolution of control issues.

The need to have access to financial capital is a critical factor in the ability of a family business to implement a succession plan, as buyouts of owners by the next generation necessitate a combination of inside and outside capital. In order to ensure access to external capital, structures and processes, such as a clearly articulated succession plan, may be put in place to increase the legitimacy of the business (Davis & Harveston, 1998). As the business's dependency on outside sources of capital rises, the expectations that the family create structures and processes that legitimize it in the eyes of lenders increases (Poza, 1989). In addition, as the family assumes a greater role as a provider of financial capital, the business will have an increased tendency to implement a more extensive succession process as part of a broader effort by family members to ensure the business's long-term survival and the continuity of family control (Davis & Harveston, 1998).

Traits of Next Generation Successors

The preparedness level of the next generation and the relationship they have with the senior generation has a significant influence on the next generation's performance (Morris et al., 1997; Molly, Laveren, & Deloof, 2010). Organizational commitment literature provides reasons the next generation pursue a career in their family businesses. They pursue family business

careers because they want to, out of a sense of obligation, due to involved opportunity costs, or out of a sense of need (Sharma & Irving, 2005). Behavioral and performance variations are expected depending on the reasons children join their family businesses.

Birley (1986) interviewed 63 next-generation family members to obtain their viewpoints concerning the opportunity to work in the family business and found that children are often raised to be successors and may not feel there is a choice. However, the study found that parents tend to be positive and do not put pressure on them to come back to the business. Almost half of respondents felt they were needed back at the family business and this created a sense of responsibility to the family because parents do not know what they are doing, a belief family businesses should continue, and a sense of family duty. Birley concluded that an unwillingness of the owner to make succession decisions may necessitate outside intervention during the planning process and eventual transition period.

The founder may fear losing control and retirement may indicate a role demotion in the family, resulting in self-defeating mechanisms that do not help them cope with potential anxiety from these events. An example of negative mechanisms includes sabotaging a potential successor's professional development to pacify their need to remain in control, despite beneficial plans for successor development (Lansberg, 1988). Customers and suppliers of a family business are often accustomed to interacting with long-term owners (Lansberg, 1988). One way for sabotage to take place is simply by not introducing the potential successor to those business relationships over time. This incumbent attachment to the role in the business and thereby the role in family can be problematic for succession, resulting in the potential successor not obtaining the opportunities needed to develop the skills or respect necessary to manage the business (DeMassis et al., 2008). The result may be the successor leaving the family business or

staying, but undermined and potentially viewed as incompetent by other family members (DeMassis et al.).

Family business leaders express that the most desirable traits for the next generation include: (a) integrity, (b) commitment to business, (c) ability to gain respect of nonfamily employees, (d) decision-making abilities and experience, (e) interpersonal skills, (f) intelligence, and (g) self-confidence. These attributes are considered most important regardless of different cultures and situations (Chrisman, Chua, & Sharma, 1998). Integrity and commitment are more important to the selection and success of a successor than technical skills, gender, or birth order (Chrisman et al., 1998). The formal education of a successor has been shown to be positively correlated with a smooth transition and post succession performance (Morris et al., 1997). Early exposure to the business allows the successor to become increasingly familiar with the company culture, values, and employees (Goldberg, 1996). In addition, successors who thrive typically have had jobs at other companies, which provided rich experiences and increased the successor's knowledge base, self-confidence, sense of identity, and credibility (Barach & Gantisky, 1995).

It is also important to consider whether a succession can reasonably take place within the retirement target of the incumbent based on the age and experience of potential successors. The breakdown of the succession process is related to heirs not being sufficiently prepared (Morris et al., 1997). It may be necessary to hire an interim nonfamily member CEO to fill in those time gaps and still ensure ongoing family ownership. Successful nonfamily CEOs should be able to work with and navigate the interpersonal aspects of family environments that define family businesses (Blumentritt, Keyt, & Astrachan, 2007).

Traits of Incumbent Business Owners

Barach and Gantisky (1995) suggested traits that incumbents should possess to ensure a successful transition include: (a) mentoring, (b) openness to new ideas, and (c) a cooperative attitude. It is essential to successful transition that the incumbent share views openly about the ultimate business goals (Sharma et al., 2001). The higher the leader's internal locus-of-control, the higher the level of succession planning (Malone, 1989). The quality of the relationship between the incumbent and successor facilitates the effective transfer of knowledge required for business continuity (Cabrera-Suárez et al., 2001; Goldberg, 1996). Inhibiting characteristics that incumbents have, which make transitions difficult, include a tendency to mistrust, being negatively aggressive, and the need to control every detail (Barach & Gantisky, 1995). It has also been concluded that the most cited obstacle to effective succession is the predecessor's inability to let go (Sharma et al., 2001).

Impact of Gender

In addition to incumbent traits, gender is an important factor to consider in relation to succession. The family business owner being male has been found to increase business earnings (Royer, Simons, Boyd, & Fafferty, 2008). Personnel management's effect is nine times greater on gross revenue for female than male owners. In addition, a moderating effect was found for how business owners of different gender respond to disruptions, meaning that the interaction of personnel management and gross revenue changed as a result of considering gender. The effects were large enough that the result of responses to disruptions' effects on gross revenue was found to be the opposite for females and males (Danes, Stafford, & Loy, 2007). Father-daughter successions were found to be less competitive and had less conflict than father-son successions (Haberman & Danes, 2007). Dumas (1990) compared father-son and father-daughter

relationships and suggested that daughters were happy to assume the careers they were appointed to and did not compete with their fathers for power and control. In addition, incumbents did not view daughters as potential managers or successors in the business. However, due to changing generational social beliefs women have of their own roles and others have of their roles, gender research should be periodically updated (Dumas, 1990).

Leadership Style and Dependence on a Single Decision Maker

Leadership can be defined as “the process of influencing others to understand and agree about what needs to be done and how to do it, and the process of facilitating individual and collective efforts to accomplish shared objectives” (Yukl, 2010, p. 7). The level of leadership development and financial results have been positively correlated (Duckett & MacFarlane, 2003; Waldman, Ramirez, House, & Puranan, 2001). Leadership matters for success, but to be successful, a predecessor who appoints a successor must expect to act as supervisor while the successor is learning and a collaborator when the successor has acquired the skills needed to lead the business independently (Yukl, 2010).

Family businesses are largely dependent on the owner as a single decision maker and have often not taken active steps to reduce this dependence. Feltham, Feltham, and Barnett (2005) determined that in 75% of family businesses, the company was either dependent or very dependent on the owner and 57% have two or less key employees in addition to the owner. Sixty-two percent of family businesses reported neither a named successor nor process in place for choosing a successor. In addition, the existence of independent boards of directors and advisory boards were not shown to be associated with the level of dependence on the owner. These findings suggested that their leadership style could have a large impact on the extent to which activities without direct correlation to immediate revenue, but with importance to long-

term longevity, take place. Organizational leaders have an anchoring role in family business, enabling them to have significant influence on culture, values, and performance (Collins & Porras, 1994; Schein, 1983).

The level of a family business owners' influence is a reflection of their leadership style, which impacts the extent they have proactively formalized their business and are proactively working on the business succession plan. Business leadership style has been shown to influence culture (Sorenson, 2000). Five styles of leadership have been identified in family businesses: (a) expert, (b) participative, (c) autocratic, (d) laissez-faire/mission, and (e) referent. Expert leadership has its basis in specialized knowledge and technical skill, potentially including: (a) exceptional decision-making skills; (b) industry knowledge, (c) knowledge of rules, (d) knowledge regulations, (e) social and professional networks, (f) wisdom, and (g) sound judgment (Sorenson, 2000). Expert leadership can result in referent employees. Individuals are referent in organizations by deferring to, cooperating with, and agreeing with the perceived expert. As a result, they are sources of interpersonal power in organizations that may create cultures that support achieving desired business and family outcomes (Sorenson, 2000; Yukl, 2010).

Participative leadership views employees as a resource for problem solving and information, making the development of all employees important regardless of position. Status and power are minimized for individuals, but rest in cohesive teams. Trust within these groups is at the core of relationships and performance evaluation criteria are applied the same to both family and nonfamily organization members (Dyer, 1986; Sorenson, 2000). Participative leadership tends to increase employee satisfaction, increase decision acceptance, improve decision quality, increase employee understanding of the business, and develop future leader decision-making skills (Bass, 1990; Yukl, 2010).

Autocratic leadership can be contrasted with participative leadership (Dyer, 1986; Sorenson, 2000). Autocratic leadership makes decisions without consultation, places significant emphasis on performance, can be task-driven and punitive to employees, and lacks flexibility. Autocratic leaders place low value on employee feedback and may not understand why everyone does not understand or buy into their vision (Bass, 1990). Autocratic leadership often produces low employee morale, low job satisfaction, high stress, and as a result, high turnover. The results as to whether this leadership style creates higher or lower productivity are mixed (Bass, 1990; Sorenson, 2000).

Laissez-faire/mission leadership creates a mission and goals for employees. However, leadership expects employees to proactively pursue those goals and provides them with a high degree of latitude. Authority is delegated to lower level decision makers and there is a high level of trust. Laissez-faire leadership often creates low levels of satisfaction, efficiency, productivity, and morale (Bass, 1990). The only exception to traditional laissez-faire leadership behavior is that family business leadership defines the mission and goals for employees (Dyer, 1986; Sorenson, 2000). With competent and motivated employees, there can be productivity when the leader or the task itself establishes boundary conditions (Bass, 1990; Sorenson, 2000).

Referent leadership can result from a leader's charisma (Bass, 1990; Yukl, 1989), leading to employees who are referent to the organization by deferring to, cooperating with, and agreeing with the charismatic leader. As a result, they are sources of interpersonal power in organizations that may create cultures that support achieving desired business and family outcomes (Sorenson, 2000; Yukl, 2010). The level of referent leadership increases when the leader is perceived to be fair, considerate, friendly, respectful, and trusting and decreases as a result of negative or

arrogant behavior. Referent leadership has been associated with improved employee performance, satisfaction, work attendance, and role clarity (Podsakoff & Schriesheim, 1985).

These styles have been shown to have a direct impact on family business outcomes, employee satisfaction, and employee commitment (Sorenson, 2000). However, leadership style of family business owners has not been specifically tied to business formalizing that increases succession preparedness. If leadership style impacts whether succession planning is acted upon, addressing this topic at the beginning of an engagement may increase the likelihood that appropriate succession preparedness strategies, processes, and techniques will be implemented over time.

The corporate values of key people, especially a single decision maker, determine the culture of the business. “Values of significant individuals can be seen embedded in internal political matters, in the style of communication, in the ways in which conflicts are handled, and in the degree of business centralization versus decentralization” (Klein et al., 2005, p. 325). This is in part a result of long tenures. The tenure of family business leaders has been found to be longer when compared with nonfamily executives. In a sample of publicly traded U.S. businesses, the tenure of family business leaders was found to be almost three times longer than that of nonfamily executives (i.e., 17.6 years vs. 6.43 years respectively; McConaughy, 2000).

Through social network theory, the concept of founder centrality and influence within a small family business has been observed, both during and after the tenure of a founder. Brass (1995) and Kelly, Athanassiou, and Crittenden (2000) suggested three dimensions of centrality including: (a) “betweenness” (i.e., central to the flow of information), (b) closeness (i.e., direct linkages with top management group), and (c) connectivity (i.e., ability to influence the most connected members). They suggested that high centrality should lead to: (a) an alignment of

perceptions between founder and other family and nonfamily executives, (b) better business performance along the dimensions of success that are important to a founder, and (c) a stronger influence of the founder on the business after his or her tenure ends. Research specifically addressing the leadership style employed by the family business's incumbent, as well as the successor, is limited.

Unsuccessful Family Business Succession

One way to know what it takes for a successful family business succession is to understand how business successions have failed. At the heart of failed successions, defined as either a successor dismissal or bankruptcy, is the misalignment between an organizational past and future. Based on a study of 16 failed family businesses, Miller et al. (2003) identified that in each failure there was a misalignment of the organizational past and the future. This suggests that the successor has either too strong of an attachment to the past, a complete rejection of the history, or a blending of the past and present in a way that is incongruent. Three observed patterns of this misalignment are: (a) conservative (i.e., attachment to the past), (b) rebellious (i.e., wholesale rejection of the past), and (c) wavering (i.e., incongruous blending of the past and present). Depending on the pattern, performance will be impacted. Market opportunities may be missed as a result of an attachment to the past that prevents the business from taking on new opportunities. In addition, the other side of the spectrum would be rejection of a past business model that may have provided strong successful performance in the past and still has merit based solely on a rejection of ideas of the previous generation (Miller et al.).

Reasons business successions fail include: (a) incompetent or unprepared successors; (b) family rivalries; and (c) unclear succession plans. Incompetent or unprepared successors represent situations where either the successor was appointed due to family status despite not

having the necessary capabilities, or had the capabilities to take over the business, but did not have specific and complete training as to the roles and responsibilities. Family rivalries result when choosing a successor is avoided in order to minimize perceived conflict or when a successor is chosen, but family members may not agree with the decision. Unclear succession plans are the result of succession plans not being recorded, discussed, or updated (Dyer, 1986; Morris et al., 1997). Even when parents attempt to engage in self-control, ideological beliefs and values tend to determine the governance choices they make. This may result in adverse selection or entrenchment in family businesses as family members become assigned to positions for which they are not best qualified (Ling, 2002).

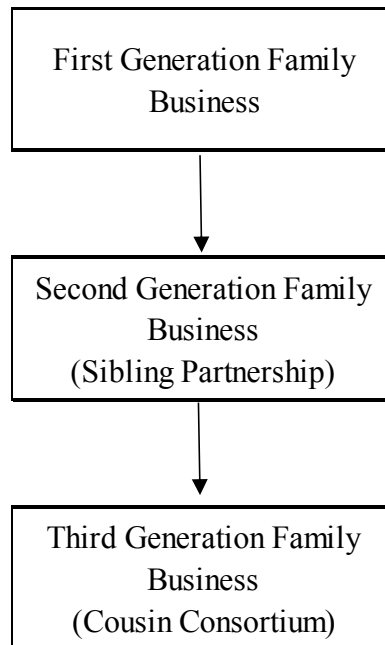
Generational Effect

The generational effect is the recognition that some variables have an impact that lessens or increases in subsequent generations. Davis and Harveston (1998) considered family business generational effects in first, second, and third (and higher) generation family businesses as a moderator on selected succession outcomes. Only a moderate increase in the level of task conflict from the first to the second generation was found. However, a more substantial increase was found from the second to the third generation (Davis & Harveston, 1998). As far as succession planning, second generation businesses were found to be more like first generation businesses than third generation businesses. This is likely resulting from 70% of second generation businesses still having at least some influence from the first generation (Cabrera-Suarez, 2005; Davis & Harveston, 1998). Even after the successor has been appointed, many predecessors remain in contact with the business. Depending on the generation of the business, this has had a significant impact on the new leader's integration into the business and ability to

manage employees for whom instructions from the predecessors continued to take priority (Cadieux, 2007).

The generational effect is particularly evident in advice needs, experience, conflict, institutional trust, and learning. Advice needs decrease from the first generation to the second, and rise again in third and subsequent generation businesses (Bammens, Voordeckers, & Van Gils, 2008). This convex trend can be understood through two underlying opposing generational evolutions: (a) the increase in task conflict among the family members and (b) the rise in family experience. Multiple generation businesses are typically characterized by higher levels of task conflict and less intentional trust (Bammens et al., 2008; Steier, 2001b), which is the willingness to be vulnerable to the actions of another individual due to a perception of their integrity or altruism (Mayer et al., 1995). The decrease in altruism is attributable to fewer social interactions among relatives, limiting opportunities to develop mutual intentional trust (Mayer et al.; Raskas, 1998; Steier, 2001b). Family members in parental businesses generally have closer relationships than those in sibling partnerships, and siblings mostly have closer relationships than the members of a cousin consortium (Ensley & Pearson, 2005; Gersick, Lansberg, Desjardins, & Dunn, 1999). As a result, sibling partnerships often require the installation of formal governance mechanisms to create expectations for and minimize conflict between employed siblings. This can be considered even more important for the cousin consortium generational stage (Steier, 2001b).

Figure 2.1 Multigenerational Family Business Model (Ward, 1987)



The next generation can become impatient in the business as they wait for the incumbent to let go, creating a sense of rivalry and resentment as children reach middle age (Birley, 1986). Handler (1992) studied next generational perspectives through interviews with 32 next-generational family members and identified three factors that if properly addressed increased the level of positive succession experience: (a) career interests, (b) psychosocial aspects (i.e., personal identity), and (c) life stage needs. Minimized sibling conflict on family business issues also increased the positive experience. As the level of personal influence impacts the quality of the succession experience, as well as the knowledge that a plan is being proactively implemented, the transfer of some level of ownership and/or a plan for transfer of certain responsibilities and stock may alleviate resentment (Handler, 1992). The choice of the next-generation successor to join the family business is related to individual needs, goals, skills, and abilities (Stavrou, 2003). Cater and Justis (2009) found three variables that affect successor

approaches to leadership in family businesses: (a) positive parent–child relationship (i.e., a relationship of mutual respect and open conversation); (b) long-term orientation (i.e., the ability to see potential consequences of short-term solutions, while at the same time making decisions based on solutions that will have a long-term benefit, but possibly a very limited short-term benefit); and (c) cooperation (i.e., the ability to work for the mutual good of people and projects despite potential disagreements). In addition, the next generation is interested in strategy, systems, and goals more than particular markets and products (Birley, 1986), indicating the role they are given in the business may impact satisfaction with the family business. However, the choice of a next-generation successor not to join the family business was related to issues with the family, not the business (Stavrou, 2003).

Family experience increases the most from the first to the second generation. Successors are different from founders because they are not entrepreneurs who are starting their own businesses, but rather managers who enter a business that has a complex set of challenges that they did not create (Cater & Justis, 2009). First generation businesses often build up significant capabilities and rituals. Second and subsequent generations tend to contribute far less to this knowledge-development process (Astrachan et al., 2002; Klein et al., 2005). While each succession event may be unique with no preprogrammed answers, it may be expected that in each generation learning occurs, making previously rare events become a regular part of the business's activities (Senge, 1992).

Family Business as an Enterprise

Organizational-level attributes and resources were analyzed by Davis and Harveston (1998) and as a result are included in the Model of Business Succession, which served as a conceptual framework for their study to measure the extensiveness of the succession planning

process. They did not find a significant relationship between organizational size and the extensiveness of business succession planning. However, the presence of formal mechanisms and family protocols rose with each passing generation (Sonfield & Lussier, 2004).

Davis and Harveston (1998) found access to capital to be a critical factor in the ability of a family business to implement a succession plan, as next-generation buyouts of owners necessitates a combination of inside and outside capital. Paradoxically, the legitimacy of the business is increased by having a clearly articulated succession plan in order to ensure access to external capital, structures, and processes (Davis & Harveston, 1998). Poza (1989) found that as the organization's dependency on particular sources of capital rises, there are heightened expectations that the family create structures and processes that legitimize its organization in the eyes of resource providers. Use of family financial resources in the business were found to occur more when the business has loans from financial institutions or in cases where the owner is older, has more experience, and is without children (Haynes, Rowe, Walker, & Hong, 2000). In addition, how resources are allocated within the family business can become an issue for family shareholders outside the business. Shareholders outside the business tend to prefer short-term dividend payouts whereas family members in the business mostly emphasize long-term performance (Vilaseca 2002; Schulze, Lubatkin, & Dino, 2003).

Business Boards

The use of a business board is at the core of formalizing the family business. The exit or failure of a significant number of family businesses could be avoided by implementing properly functioning governance mechanisms, such as a board of directors (Bammens et al., 2008). The board offers more independence, a longer term perspective than separate fee for service advisors (The NACD Commission Report on Director Professionalism, 2011), and is highly correlated

with business longevity over multiple generations (Astrachan & Kolenko, 1994). Boards of directors may push for a heightened level of business formality as a means to help decide on the future direction of their businesses (Barach & Ganitsky, 1995).

Governance entails avoiding conflicts between the roles of the family and business, while preserving unity among the family members (Lane, Astrachan, Keyt, & McMillan, 2006). The board of directors can act in the role of arbitrator in family businesses and this role is significantly strengthened through objectivity and expertise of outside directors (Ward & Aronoff, 1994). Boards are especially valuable for family businesses, where management teams are small and dominated by a single decision-maker (Feltham et al., 2005). Nonexecutive directors often play an active role in creating company strategy and influencing performance (Daily & Near, 2000). Yet, in a study of how nonfamily member executives were utilized in family businesses, only 9% of first generation companies and 19% of multi-generational businesses were found to utilize a nonexecutive director (Westhead, Howorth, & Cowling, 2002). Gabrielsson (2007) found that the use of a board was impacted by the age of the CEO, with younger, inexperienced CEOs more often utilizing a board.

Bammens et al. (2008) suggested businesses in different generational phases have different governance needs and characteristics and addressed board development in terms of tasks, control, and composition. In regards to board task needs, there was a convex generational increase in the need for board advice, and a rise over the generations in the need for board control. For board composition, the likelihood of having an outside director on the board had an increasing generational trend, which was mediated by the businesses' board task needs. Furthermore, the number of family directors was found to increase over the generations.

There has been an increase over subsequent generations in the level of task conflict that can be linked to the need for advice and control by the board of directors. The generational effect is strongly evident in advice needs, experience, conflict, institutional trust, and learning, with advice needs decreasing from the first generation to the second, and rising again in third and subsequent generation businesses. Multiple generation companies are typically characterized by higher levels of task conflict and less intentional trust (Bammens et al., 2008).

Business Board Formalities

There are two types of business boards, an advice board and a monitoring board. In the U.S., monitoring boards are required for certain types of businesses, such as public companies and C-Corporations. However, most family businesses do not have a monitoring board requirement and instead are left to choose whether they want to utilize an advisory board, and if so, how they want it to look. The largest difference between board types is that a monitoring board: (a) represents shareholders, (b) has a duty to monitor the business, (c) is not concerned with the product or marketing, (d) is not an advisor to management, and (e) makes decisions that are binding on the business. Monitoring board functions may be best explained by agency theory. An advisory board often includes experts from outside the business and utilizes expertise for advice purposes around marketing and products. The advice is not binding upon the owners. Boards can augment the expertise and know-how of the management team (Huse, 1990). In the case of a monitoring board, board members are chosen by shareholders, while management typically chooses advisory board members. Advisory boards are appropriately explained by stewardship theory.

The National Association of Corporate Directors (NACD) Commission Report on Director Professionalism (National Association of Corporate Directors, 2011) is a blueprint for

how monitoring boards are required to operate. Although not binding on an advisory board, the structure and requirements suggested can provide potential guidance to family businesses on best board practices and structure for their advisory board. A family business may find that some of the requirements that come through a monitoring board will be required of them, such as obtaining an independent outside audit for family businesses that seek bank lending.

Important prerequisites for board empowerment in small companies include a large number of board members, a high representation of outside directors, and a separation of the CEO and chairman roles (Gabrielsson, 2007). Family business boards typically have between three and seven members, and there is rarely more than one outside director. The outside director often has a close personal relationship with the family business owner (Huse, 1990; Ward & Handy, 1988). At least two outside board members are recommended, and more independent board members than family members or insiders increases performance (National Association of Corporate Directors, 2011). The number of directors is viewed as a reflection of a board's ability to assist the family business owner in critically discussing strategic alternatives and objectives (Daily & Near, 2000). A larger board is more likely to provide timely information about business and market conditions before strategic decisions are made (Bennett & Robson, 2004).

The sense of formality the board acts with is critical, despite potential tight bonds between board members. However, family governance collaboration becomes dictated by informal meetings and their importance increases from the second generation on (Sonfield & Lussier, 2004). Part of that formality is established by paying board members. According to Sonfield and Lussier (2004), a generally increasing trend exists in proactively paying the board, depending on the generation of the business. Interestingly, a larger proportion of businesses in the third generation do not pay their board members (i.e., 27% in first generation, 26% in second

generation, and 41% in third generation). In the case where the directors were paid, the use of a fixed pay system was common and increased with the generations. In addition, board members having an equity or phantom equity stake most closely align personal and business interests and provide heightened objectivity (National Association of Corporate Directors, 2011).

Predominant Theoretical Perspectives of Family Business

In order to address the most predominant ways theory has been used to explain business succession previously and to provide some historical context to the study of family business succession, an overview of the most predominant theories is provided. While not the underlying theories of this study, these theories provide context to help explain the interactions between family and business and show the most predominant approaches that have been taken previously to explain the interactions. Sharma (2011) suggested that the study of the family as a differentiating factor in family businesses versus nonfamily businesses is a newer discipline and that much of family business research foundation has been based in agency theory and resource based view theory. Sharma suggested that family business research trends are out of necessity starting to utilize additional theory in order for the field to continue to advance.

Agency Theory

Originating in organizational studies, agency theory helps us understand the extent to which management works for owners. It is based on the idea that the separation of ownership and management in businesses leads to a principal-agent relationship and managers (agents) may not make decisions that are in the best interest of owners (principals) (Jensen & Meckling, 1976; Ross, 1973). The expectation is that an alignment of ownership and management within a family business eliminates issues of agency because individual family members engage in altruistic behaviors, subjugating their self-interests for the collective good of the family. These views

result in a belief that there is no need for formal governance processes when management and ownership are aligned because it would be an unnecessary expense that would decrease the business's financial performance (Sharma & Chrisman, 2004). However, agency theory can be directly applied to family business situations as long as the set of goals and objectives proposed for the business can be expanded to allow non-economic benefits (Chrisman, Chua, & Sharma, 2005).

Schulze et al. (2003) suggested that in family businesses, agency relationships are embedded in the child-parent relationship, which is rooted in altruism when ownership control places business resources at his/her discretion. They defined altruism as a moral value by which individuals act in a beneficial manner to others without expectation of external reward and suggested altruism can result in needs of individual family members taking precedence over business strategic needs, requiring family business owners and non-owner family members to consider whether the business or family should come first. Even when parents attempt to engage in self-control, fundamental ideological beliefs and values may constrain them and determine the governance choices they make, meaning the foremost basis in decision making around the family business may not be rooted in what is best for the business (Ling, 2002). Family business owner generosity can be motivated by the desire to enhance their own welfare. On the other hand, children may take advantage of that generosity by "free riding" (i.e., leaving work for others to do), squandering family money, and remaining dependent on their parents (Schulze et al.). Altruism seen by nonfamily member employees can be detrimental to business moral (Schulze et al.). In addition, altruism can be replaced in families by hate, jealousy, and apathy (Dyer, 2003), which can create an environment full of mistrust and result in conflict, putting an existing succession plan or a desired one in jeopardy (DeMassis et al., 2008).

There is a nonlinear relationship between the value of the business and the managers' ownership level. Initially, as ownership increases from zero, business value increases. However, beyond a certain range, business value actually decreases with managers' ownership (Morck, Shleifer, & Vishny, 1988). In other words, agency costs rise as a result of the entrenchment of management, which was made possible by increased ownership.

Resource Based View Theory (RBV)

Resource based view theory (RBV) has underlying assumptions, including: (a) businesses maximize profits at all costs, (b) leadership acts rationally, (c) competing businesses can possess different bundles of resources, and (d) these resource differentials can persist (Barney, 1991). Based on these assumptions, some businesses can possess resources that enable them to more effectively implement strategies than other businesses (Barney, 1991). As with agency theory, an important weakness of the resource based view approach is the underlying assumption that competitive advantage to create wealth is the sole goal of family businesses.

A resource based view of a family business helps us understand how families identify and develop capabilities, transfer them to the next generation of leadership, and how these capabilities are adapted when disruptions occur. Sirmon and Hitt (2003) provided an extensive application of RBV to family businesses. Distinguishing among five sources of business capital, including: (a) government structures, (b) human, (c) social, (d) survivability, and (e) patient capital, they suggested that family businesses use these resources differently than nonfamily businesses. As a result, these differences create competitive advantages in family businesses. Barney, Clark, and Alvarez (2002) suggested that family businesses may have an advantage in opportunity identification because of family members' increased openness with information between business employees and divisions. They suggested other potential competitive

advantages include more long-standing values, a larger ownership stake, longer CEO tenure, and more of a long-term vision.

The potential competitive advantages of family businesses should not overshadow potential disadvantages identified in the literature. The time and effort that goes into maintaining family ties negatively affects their ability to maintain social ties outside the family, and family ties are not a source of rare and specialized resources needed for entrepreneurship and value creation. Therefore, the family does not provide a competitive advantage in acquiring resources (Barney et al., 2002). Additionally, in family businesses, firing family members is very difficult, potentially negatively impacting economic performance (Sirmon & Hitt, 2003).

Danes, Stafford, Haynes, and Amarapurkar (2009) created a typology for defining various types of family capital and defined family social capital as “goodwill among family members and between families and their community members that can be input to the owning family and their firm to facilitate action (p. 208)” They further defined survivability capital as “the integration of the family’s human, social, and financial capital (p. 208)” and contrasted survivability capital with resilience capacity. They suggested family functioning, adjustment strategies, and financial intermingling practices could be considered indicators of Sirmon and Hitt’s (2003) survivability capital and contribute to multiple dimensions of business success. During periods when financial capital may be scarce, family business owners utilize other forms of capital to sustain operations (Danes et al., 2009).

Theoretical Framework

The Family Business Succession Model

To guide the methodology of this study, the Model of Family Business Succession served as a conceptual framework to measure the resulting extensiveness of succession planning

preparedness as opposed to the actual succession process (Davis & Harveston, 1998). Davis and Harveston (1998) derived the model by studying the extent to which prior intergenerational succession events in U.S. family businesses, whether first, second, or third (or a later generation), moderate the effects of certain individual-level (owner) characteristics, group-level (family) influence, organizational-level attributes, and resources (capitalization). The individual level of the model was developed by understanding that demographic characteristics of the owner, such as age and education, have predictive validity regarding critical formalizing processes in regards to business succession (Hambrick, 1989).

Several individual factors have been examined as to their impact on succession preparedness (Davis & Harveston, 1998). First, the age of the family business owner was found to impact the extensiveness of succession preparedness. Second, the owner's education level was found to have a negative impact. Finally, neither the income derived from the business or the percentage of net worth were found to significantly impact the level of succession preparedness.

Davis and Harveston (1998) acknowledged that at the time of the model development, there was not a construct to clearly measure family influence in a family business and that to make the model work, a measurement was developed. Based on that work, it was determined that more family members working in top management positions significantly impacts the level of family preparedness. However, family members outside top management and not in day-to-day operations were not found to exert influence on succession preparedness. The one exception to this influence was spouses of the owner(s). Poza and Messer (2001) found that spouses make contributions that are not always recognized, even while standing on the business margins. Spouses also make strong contributions in creating a greater sense of family unity among the next generation.

Organizational-level attributes and resources were analyzed by Davis and Harveston (1998). A significant relationship between organizational size and the extensiveness of business succession planning was not found. However, the presence of formal mechanisms and family protocols rose with each passing generation. For example, rules may be established as to the age family members must be and the skill and educational requirements necessary in order to be involved in the family business. In addition, rules and expected dividend policies may be put in place for family members who are not actively involved in the business (Sonfield & Lussier, 2004).

Access to capital was found to be a critical factor in the ability of a family business to implement a succession plan, as next-generation buyouts of owners necessitates a combination of inside and outside capital (Davis & Harveston, 1998). Paradoxically, the legitimacy of the business is increased by having a clearly articulated succession plan, in order to ensure access to external capital, structures, and processes (Davis & Harveston, 1998). Poza (1989) found that as the organization's dependency on particular sources of capital rises, there are heightened expectations that the family create structures and processes that legitimize its organization in the eyes of resource providers. Use of family financial resources in the business were found to occur more when the business has loans from financial institutions or in cases where the owner is older, has more experience, and is without children (Haynes et al., 2000). In addition, how resources are allocated within the family business can become an issue for family shareholders outside the business. Shareholders outside the business tend to prefer short-term dividend payouts, whereas family members in the business mostly emphasize long-term performance (Vilaseca, 2002; Schulze et al., 2003).

The Family Business Succession Model Extended

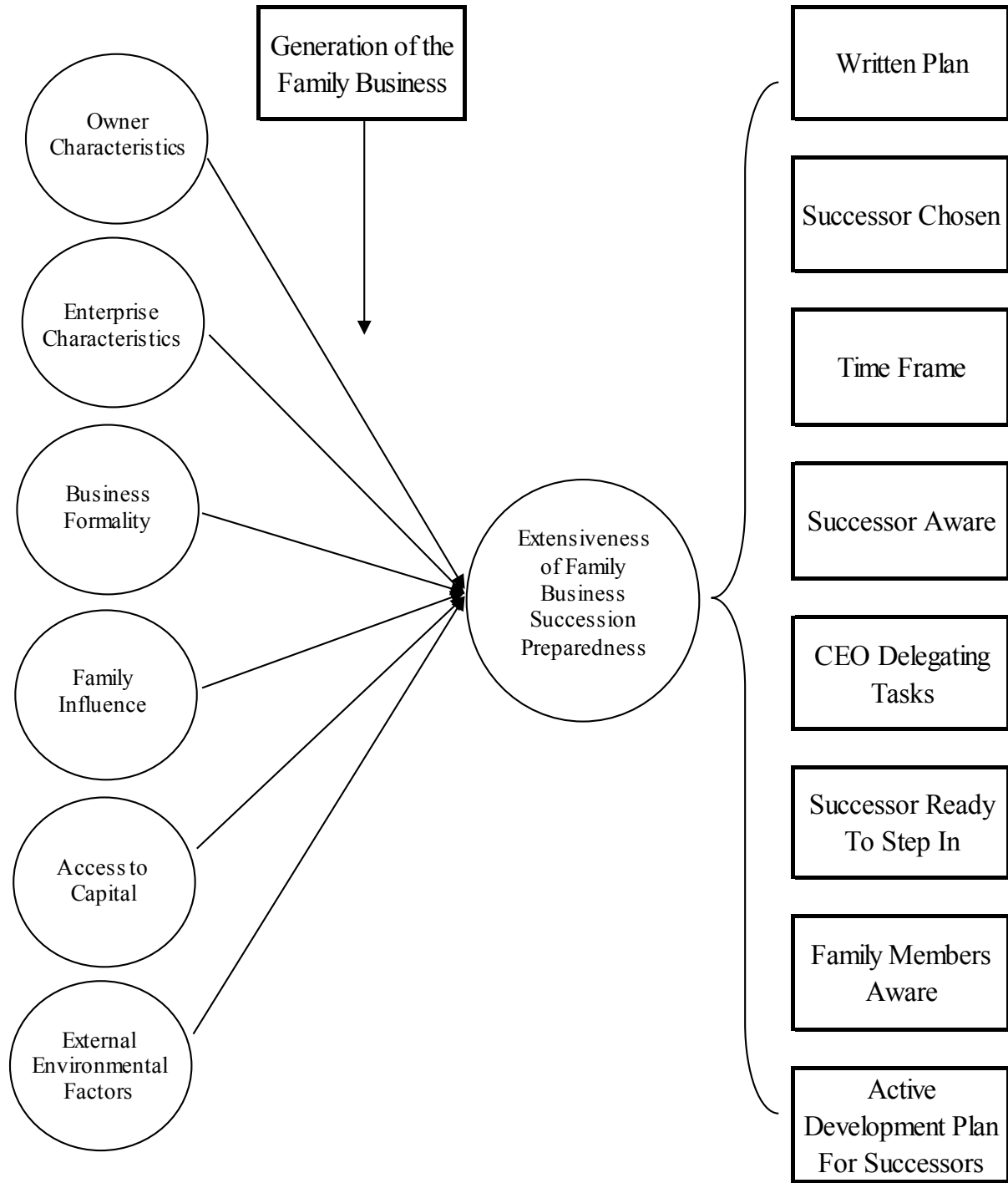
In a study generalizable to the U.K., Westhead (2003) explored the same internal environmental characteristics, but also extended the model to include external environmental conditions affecting succession preparedness, including industry, external economic turbulence, and whether the business is located in an urban or suburban area. Previously, external environmental conditions were not incorporated within conceptual frameworks or multivariate statistical studies focusing on family business succession planning (Westhead, 2003). The current study provided evidence relating to succession decision making by first and multi-generation family businesses.

Each study utilized the business generation as a moderating variable. The generational effect is the recognition that some variables have an impact that lessens or increases in subsequent generations. Davis and Harveston (1998) considered family business generational effects in first, second, and third (and higher) generation family businesses, as a moderator on selected succession outcomes. Only a moderate increase in the level of task conflict from the first to the second generation was found. However, a more substantial increase was found from the second to the third generation. As far as succession planning, second generation businesses were found to be more like first generation businesses than third generation businesses. This is likely resulting from 70% of second generation businesses still having at least some influence from the first generation (Cabrera-Suarez, 2005; Davis & Harveston, 1998). Even after the successor has been appointed, many predecessors remain in contact with the business. Depending on the generation of the business, this had a significant impact on the new leader's integration into the business and ability to manage employees for whom instructions from the predecessors continued to take priority (Cadieux, 2007).

The Family Business Succession Model Proposal to Extend the Model

The Family Business Succession Empirical Model (see Figure 2.2) below represents how six groups of factors (i.e., owner characteristics, organizational characteristics, family influence, business formality, access to capital, and external impacting factors) all impact the extensiveness of business succession preparedness. However, how these variables are impacted is dependent on the business generation, which serves as a moderating variable. Business succession preparedness is represented by whether a successor has been chosen, whether a successor has been considered, whether one successor has been considered, whether several successors have been considered, whether the successor has been informed, and whether others have been informed.

Figure 2.2 The Family Business Succession Empirical Model



Family business latent variables are considered to be:

*Family Business Factors*₁ = Majority owner characteristics,

*Family Business Factors*₂ = Enterprise characteristics,

*Family Business Factors*₃ = Business formalizing activities,

*Family Business Factors*₄ = Family influence,

*Family Business Factors*₅ = Access to capital, and

*Family Business Factors*₆ = External environmental conditions.

The business succession latent variable represents:

*Succession Preparedness Factors*₁ = Extensiveness of business succession preparedness

The moderating variable is business generation:

*Moderating Factor*₁ = Business generation

The empirical model can be described as:

$$Y = i + aX + bM + cXM + E$$

$$Y = \textit{Succession Preparedness}_1$$

$$X_1 = \textit{Family Business Factors}_1$$

$$X_2 = \textit{Family Business Factors}_2$$

$$X_3 = \textit{Family Business Factors}_3$$

$$X_4 = \textit{Family Business Factors}_4$$

$$X_5 = \textit{Family Business Factors}_5$$

$$X_6 = \textit{Family Business Factors}_6$$

$$M = \textit{Moderating Factor}_1$$

$$XM_1 = \textit{Family Business Factors}_1 \times \textit{Moderating Factor}_1$$

$$XM_2 = \textit{Family Business Factors}_2 \times \textit{Moderating Factor}_1$$

$XM_3 = \text{Family Business Factors}_3 \times \text{Moderating Factor}_1$

$XM_4 = \text{Family Business Factors}_4 \times \text{Moderating Factor}_1$

$XM_5 = \text{Family Business Factors}_5 \times \text{Moderating Factor}_1$

$XM_6 = \text{Family Business Factors}_6 \times \text{Moderating Factor}_1$

In the current study, each factor represented at least one latent variable derived as an Anderson Rubin score, which represented a weighted summation of the variables within each respective factor. The exception was the dependent variable, extensiveness of business succession preparedness, which represented a summed scale. The interaction of X and M or coefficient c measures the moderation effect.

How This Study Adds to the Family Business Succession Model

This study adds to the Family Business Succession Model (David & Harveston, 1998; Westhead, 2003) by putting the model within the framework of family systems theory. As a result, the model contains three interacting factors (i.e., family, owner, and enterprise) and three additional factors that are influenced by or influencing those interacting factors (i.e., external economic environment, business formality, and access to resources), all impacting the extensiveness of business succession preparedness (see Figure 2.3). In addition, this study contributes to the literature by: (a) introducing a new scale for the measurement of family business succession preparedness; (b) expanding on business formality through the creation of several scales (e.g., business formality and extensiveness of business succession preparedness); (c) utilizing the F-PEC scale to measure family influence; (d) adding emphasis on the family business board as a potential driver of succession preparedness; and (e) measuring intent to work as an enterprising family, as opposed to putting emphasis only on the succession of the business organization. By continuing to build on this model, there is additional explanation as to what

drives successful family business succession preparation and how systems interaction influences those results. By utilizing a family influence scale that is used in many other studies, this study allows for direct comparison in the literature with results found in other studies that use F-PEC to measure family influence. Ultimately, this model can help family business practitioners recognize the importance of a holistic approach (i.e., addressing all components of the model), as opposed to focus on one area of the model, in order to help family businesses fully prepare for business succession.

Family Systems Theory

The dynamics that function within the Family Business Succession Model, as developed and added upon, can be explained through the various systems that interact to determine whether a family continues to operate intergenerationally as an ongoing economic unit through a family business, and if they do, how those interactions between systems change by generation. The most applicable and flexible theory to help address and inform the underlying interactions in the Family Business Succession Model is family systems theory, which explains how the interactions of these systems create financial and economic results for the business and the family. Specifically, this study will address how extent of actions of ownership, the family, and the business enterprise interact to create results that prepare the business to transition intergenerationally and how these interactions change by generation. The concepts and major assumptions as applied to family systems theory are addressed below.

At the core, systems theory has an underlying assumption of interdependency where a change in one system creates a change in other adjacent systems (Nichols & Schwartz, 2001). A system is defined as a bounded set of interrelated elements exhibiting coherent behavior as a trait (Constantine, 1986). Bowen (1966) proposed that family systems theory represents systems of

interdependent units that cannot be understood without considering the system. Systems theory has been widely used to help explain phenomenon around family communication, goal setting, complex relationships, and maintaining boundaries because it allows for a conceptual framework (Jaccard & Jacoby, 2010). From a systems theory perspective, the family and the business are separate systems, which interact. Each of these systems is important to fully understand the development of a business owner family and family business.

The business ownership, the family, and the business enterprise are critical systems that interact to determine the level of succession preparedness. These systems may be impacted by the generation of the business (i.e., experience level interacting), as well as external environmental conditions, such as economic conditions. A major hypothesis of this study is that how business owners interact with the business and family has an effect on the preparedness of the business for successful succession and that these interactions change based on the business generation. This hypothesis means that the level of succession preparedness, or formalized succession plan, is associated with the extent owners have formalized other areas of the business (e.g., created a board, employee development plan, or mission statement) and that business longevity has a moderating impact on this relationship. Literature has suggested that subsequent generations often have formalized business practices (Davis & Harveston, 1998; Ward, 1987).

Concepts

Systems theory provides flexibility in research applications, but also provides the breadth to help explain the complex phenomena of the impact of a family system interacting with a business system (Whitchurch & Constantine, 1993). The focus of systems theory is on the relationship among systems, as opposed to how a series of events started or the resulting outcome, which provides a circular approach rather than linear (Nichols & Schwartz, 2001;

Whitchurch & Constantine, 1993). Systems have different levels of interconnected hierarchy, ranging from subsystem to suprasystem. A set of subsystems make up a system and a suprasystem consists of systems that transcend the family and exert influence on the family system, such as extended family, community, and ethnic culture (Whitchurch & Constantine, 1993).

Each hypothesis is a result of the business owner(s) being a part of a family system and that family system being a part of the business system. As a result of that association, there is an interdependency. While family systems theory can help establish that the family system has an impact on the business system, research may also find that the impact changes as a result of the business generation and that there are disadvantages and advantages in each generation of the family business. The impact may result in better understanding of how a family business differs between generations in terms of openness with information between business employees and divisions, values, a larger ownership stake, longer CEO tenure, and more of a long-term vision. These phenomenon that can be explained through research that has a theoretical basis in family system theory.

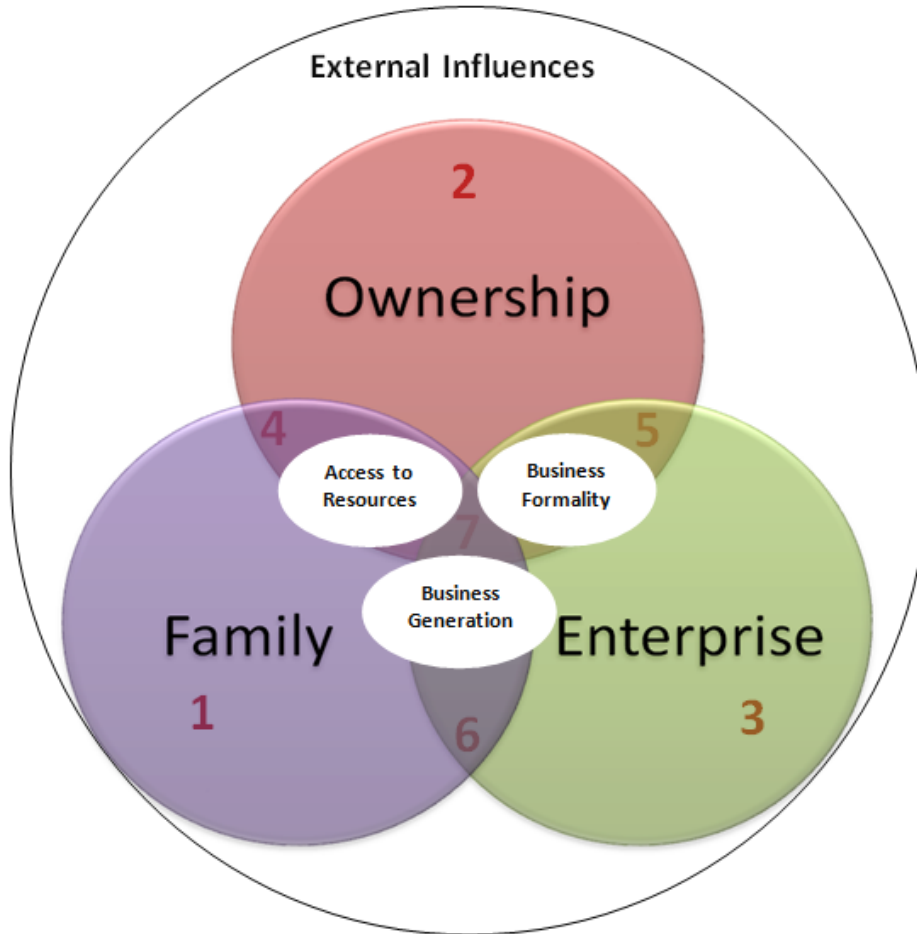
Major Assumptions

Jaccard and Jacoby (2010) suggested that basic constructs of family systems theory include the following: (a) family members are part of a system and are interrelated; (b) the whole is more than the sum of its parts; (c) there is a predictable pattern of interaction that emerges in a family system (i.e., these repetitive cycles help maintain the family's equilibrium and provide guidance as to how each family member should function as each family member takes on a role); (d) boundaries can be viewed on a continuum from open to closed with the degree of energy and information exchanged, determining the extent that the system is open and active; and (e)

repetitive and largely unwritten rules shape members. These relationship agreements prescribe and limit a family members' behavior over time and provide both power and sometimes a sense of guilt. Better understanding the family business system is critical and increasingly at the core of family business research.

Using family systems theory as a basis for this study helps inform the model derived by Davis and Harveston (1998), expanded on by Westhead (2003), and then further expanded through this study to explain the interdependency of the systems of family, family business owners, and the business enterprise (including nonfamily employees). The current study helps to provide context for how they interact and operate in a larger system. The Three Circle Model (see Figure 2.3; Tagiuri & Davis, 1982) is a representation of the overlapping influence of these systems based on various roles taken on by people in different and sometimes multiple systems and often their involvement with multiple systems simultaneously. For example, a business may be influenced by family members who are employees, but not owners, family members who are owners, but not employees, or nonfamily member employees who have obtained some business ownership. For this study, Tagiuri and Davis' (1982) model was adapted to include three interacting factors (i.e., family influence, owner characteristics, and enterprise characteristics) and three additional interdependent systems that are influenced by or influencing those (i.e., external economic environment, business formality, and access to capital), all impacting the extensiveness of business succession preparedness.

Figure 2.3 The Three Circle Model Adapted from (Tagiuri & Davis, 1982)



Role	Common Examples
1 Family, neither owner nor employee	Spouses; younger descendants
2 Owner, neither family nor employee	Investors; third party trustees
3 Employee, neither family nor owner	Nonfamily managers; employees
4 Family-owner	Founder; descendants of founder
5 Nonfamily-owner employee/manager	Key executives and managers
6 Family employee	Spouse of descendant (in-laws)
7 Family owner and employee	Founder; CEO; other family employees

Tagiuri and Davis (1982) visualized the interaction between enterprise, family, and owner systems as the Three Circle Model, which has its basis in family systems theory and is consistent with the underlying systems theory. Intergenerational business succession preparedness is not a singular event or a static one, but is addressed by how these systems interact. Succession preparation is ongoing and circular, as opposed to a linear process. Similarly, one cannot look at the Three Circle Model and see an ending point. Family systems theory has resulted in additional models to help explain family business sustainability, but none that addresses both the business sustainability and business revenue simultaneously. Family systems theory proposes that sustainability is a function of both business success and family functionality and focuses on how family members exchange resources across systems, particularly during disruptions (Stafford, Duncan, Danes, & Winter, 1999).

Specifically, within the family enterprise system, there are interactions that impact the level of succession preparedness. The organizational characteristics and business formality of the Davis and Harveston (1998) model are encompassed within the enterprise system. The owner characteristics are represented in the ownership system; the family influence is addressed within the family system, whether or not family members are in the business. These systems are seen as interrelated to inform the extensiveness of business succession preparedness. As a whole, the result of the interdependency of these parts is that potentially the business is stronger and the preparedness for succession is greater than it would be if succession resonated from any one system alone. This can be measured through the ongoing financial success of the business and the continuity of the family working as an economic unit from generation to generation. Finally, as Jaccard and Jacoby (2010) suggested, unwritten repetitive rules often accompany and shape

members for better or worse, and these systems vary between a state from open to closed at various times and during intergenerational business transfers.

Summary

The review of literature suggested that family business as an area of study is relatively new and that during its short tenure, some research areas have been well developed, some are still in their infancy, and that there are great complexities within family businesses. The literature establishes that there is a relationship between business formality and the extensiveness of business succession preparedness and longevity in family businesses that is impacted by the business generation (Davis & Harveston, 1998; Ward, 1987; Westhead, 2003) and that business formality can be impacted by leadership (Sorenson, 2000). The literature also indicated that the success of family businesses is critical to the health of our economy (Astrachan & Shanker, 2003; Ward, 1987). Further understanding of how business formality practices are tied to business succession preparedness by business generation will be important to family business consultants and other advisors to family business owners and their businesses. Because businesses early in their life cycle may not have formalized the business to the extent of more established multigenerational businesses, communication becomes even more critical to help younger businesses create formality in order to ensure the ongoing success of the business. In addition, understanding the owner leadership style may help professionals derive different ways to approach owners that may be more effective based on those leadership styles. These professionals have a great challenge in potentially introducing concepts to owners who have not heard of or experienced them previously and in revisiting these concepts with multigenerational businesses that may have established significant formality, but may not have revisited those processes for a long time.

Chapter 3 - Research Methods

The purpose of this exploratory and descriptive study was to confirm and extend the Family Business Succession Model, a conceptual framework developed by Davis and Harveston (1998) and the work of Westhead (2003), to increase the understanding of how family business formality impacts steps family businesses take to be prepared for a succession event. The model incorporates internal and external environmental conditions impacting the extensiveness of business succession preparedness. In this study, family systems theory was integrated into the model to demonstrate the interdependency between family system and the business system. The primary audience of this research is family business practitioners who are seeking more effective ways to approach succession planning in family businesses. Research results provide them with important insight for developing recommendations around family business succession preparation, important policy implications, and a basis for new theory development. This chapter outlines the research questions presented, sample, data collection methodology, and research methods that were utilized to test the hypotheses presented.

Traditionally, in family business research, the focus has been on the business organization and whether the family works to keep that specific organization alive and in the family. However, this study also incorporates a paradigm shift in terms of definition of family business from the actual business organization to the family that seeks to operate as an economic unit across generations. This means business entities may be sold, liquidated, or purchased over time by the family, but the measurement of success is whether the family still operates business entities together (Zellweger et al., 2011). This was done by asking respondents about intention to continue to have future generations work together in business, as opposed to focusing on whether the owner intends to pass the specific business organization to the next generation. In order to

benefit family business practitioners, family business owners, researchers, and policy makers, this study addressed factors that impact the business differently, depending on the generation. In order to answer the overarching question addressed by the model of what factors affect business succession preparedness, seven specific research questions were addressed:

(a) Owner Characteristics: What are the majority owner characteristics in a family business (i.e., age, education level, marital status, income from the business, percentage of household income the business represents, percentage of household net worth tied up in the business, intention to keep operating as an economic unit multigenerationally, intention to keep the business entity in the family intergenerationally, and leadership tendency) that affect the extensiveness of business succession preparedness, moderated by the business owner generation?

(b) Enterprise Characteristics: What are the enterprise characteristics in a family business (i.e., CEO tenure, anticipated CEO tenure, business age, number of employees, business size, business lifecycle, business revenue, business book value, business market value, and corporate performance) that affect the extensiveness of business succession preparedness, moderated by the business owner generation?

(c) Business Formality: What affect do business formalizing activities (i.e., use of established mission statement, a written strategic plan, having a board, regular board meetings, using outside board members, having an organizational chart, formal compensation plans, written job descriptions, an employee handbook, an employee review process, an employee career path, a key management development plan, and a buy/sell agreement) in a family business have on the extensiveness of business succession preparedness, moderated by the business owner generation?

(d) Family Influence: What affect does family influence (i.e., experience, culture, power, and spousal influence) in a family business have on the extensiveness of business succession preparedness, moderated by the business owner generation?

(e) Access to Capital: What effect does access to capital (i.e., in general, from family, internally from the business, or from external sources) have on the extensiveness of business succession preparedness, moderated by the business owner generation?

(f) External Environment: What effect do business external environmental conditions (i.e., metropolitan size, metropolitan growth prospects, external economic turbulence, tax environment, industry lifecycle, and regulatory requirements for a succession plan) have on the extensiveness of business succession preparedness, moderated by the business owner generation?

(g) What effect do owner characteristics, enterprise characteristics, business formality, family influence, access to capital, and external environmental conditions (the constructs of the Family Business Succession Model) have on the extensiveness of business succession preparedness, moderated by the business owner generation?

As noted, the moderation effect of business generation was evaluated. Figure 3.1 identifies each concept identified by Davis and Harveston (1998) and Westhead (2003), as well as the contributions that were made to this study, including: (a) additional owner demographic variables; (b) intention to continue having the family operate as a single economic unit multigenerationally; (c) leadership style of the owner; (d) business growth strategy; (e) additional formality items (e.g., assessment of regular board meetings, the extent the board drives the succession plan, use of a written strategic plan, employee manual, and key employee development plan); (f) the separation of enterprise characteristics and business formality; (g) use

of the F-PEC subscales of experience and culture to assess family influence; (h) stage in the business life cycle; (i) stage in the industry life cycle; (j) the impact of the tax environment; and (k) the impact of a regulatory requirement for succession planning. Rather than measuring the level of succession planning based on whether a specific date has been chosen (a method common in previous studies), an assessment was made about the departure of the CEO based on economic conditions and successor preparedness. Findings address whether there is a need for family business practitioners to assess leadership style and provide education to business owner(s) based on results, in conjunction with business formalizing and business succession advice. While there are many valuable results that will emerge from this study, the most important contribution to the literature will be creating a better understanding of the need to formalize a business in order to ensure succession preparedness. As a result, business formality was conceptualized as a separate independent variable for this study, where in previous studies it was part of organizational characteristics (i.e., enterprise characteristics).

Figure 3.1 The Family Business Succession Model Conceptual Framework

	Effect on Succession Preparedness	Business Generation		
		1st	2nd	3rd+
<i>Owner Characteristics</i>	+/-	Overall diminished influence		
Age				
Education				
Household Income				
Percentage of Household Income From Business				
Percentage of Owner Net Worth Business Represents				
Intention to Manage Wealth Intergenerationally as a Family				
Intention to Keep Business in Family for Another Generation				
Marital Status				
Leadership Style				
<i>Enterprise Characteristics</i>	+/-	Overall increased influence		
CEO Tenure				
Anticipated CEO Tenure				
Business Age				
Number of Employees				
Business Life Cycle				
Business Gross Revenue				
Business Book Value				
Business Market Value				
Business Size				
Corporate Performance (scale)				
<i>Business Formality</i>	+/-	Overall increased influence		
Written Job Descriptions				
Formal Compensation Plans				
Formal Employee Review Process				
Formal Board				
Regular Board Meetings				
Outside Board Member(s)				
Board Requires Succession Plan				
Written Mission Statement				
Up to Date Organizational Chart				
Written Strategic Plan				

Employee Career Path				
Employee Manual				
Key Employee Development Plan				
Buy/Sell Agreement				
<i>Family Influence (F-PEC scale)</i>	+/-	Overall increased influence		
Power (subscale)				
Family Ownership Percentage				
Experience (subscale)				
Business Generation That Owns the Business				
Generation That Manages the Business				
Generation Active on the Governance Board				
Culture (subscale)				
Family Influence on Business				
Family Shares Similar Values				
Family and Business Share Similar Values				
FM Support the Family Business in Conversations				
Family Members Feel Loyalty to the Family Business				
FM Proud to Tell Others That They Are Part of a FB				
FM Feel Much Can be Gained Through LT Involvement				
Family Members Agree with Goals, Plans, and Policies				
Family Members Care About Fate of Family Business				
FM Involvement Has a Pos Influence On Their Lives				
Support Family's Decisions Regarding Business Future				
Willing to Put in a Great Deal of Effort Beyond Expected				
Spousal Influence				
<i>Access to Resources</i>	+/-	Overall increased influence		
Access to Capital				
Access to Internal Family Capital				
Access to Business Capital				
Access to External Capital				
<i>External Environmental Characteristics</i>	+/-	Constant across generations		
Metropolitan Size				
Metropolitan Growth Prospects				
Industry Life Cycle				
Economic Turbulence (scale)				
Tax Environment				
Regulatory Requirement for a Succession Plan				

Figure 3.1 represents variables that were tested in the family business succession model. The non-bolded variables are those that have previously been analyzed as part of the model (Davis & Harveston, 1998; Westhead, 2003). The bolded variables represent additional variables that have been added to the model due to findings in the literature. They have been added to help better understand each group and the resulting impact on the extensiveness of business succession preparedness.

Procedure

Sample

The InfoGroup National Business database was used to identify potential business owner participants in Missouri, Illinois, and Kansas. To avoid selection bias, names of businesses with their respective majority owner were randomly selected from the database by putting the entire population of businesses in alphabetical order, taking the desired sample, dividing it by the total population identified by InfoGroup, and taking that multiple of businesses from the population list. For example, one out of three businesses were sampled from the population and every third business from the alphabetized population list was surveyed. There was not an attempt in advance of the survey to determine which businesses were considered family businesses and which were not. In addition, the population was not broken down by industry. It was anticipated that the sample and responses would closely mirror the population.

Potential respondents included businesses operating in the following industries and corresponding Standard Industrial Classification (SIC) Codes provided by the Occupational Safety and Health Administration (OSHA): Mining (10-14), Construction (15-17), Manufacturing (20-39), Transportation (40-49), Wholesale/Distributors (50-51), Retail (52-59), Finance, Insurance and Real Estate (60-67), and Services (70-89), per the capabilities of the

service provider. Most SIC codes were represented within the sample, meaning a wide range of industries were sampled, and there was not an intention to limit industries. However, the following limitations were imposed. Respondents were not identified based on race or gender. It was anticipated that the race and gender of respondents would mirror the respective markets for family business owners. Business sizes were anticipated to range from 20 to 999 employees per the instructions provided to InfoGroup. In addition, annual business sales were anticipated to range from \$1 million to \$50 million. Size parameters were based on limitations of the marketing database, but also from the intention to capture businesses that fully support a family and are not so large that ownership is likely largely diluted among numerous family and nonfamily members.

Data Collection

Approval to conduct a cross-sectional survey of family businesses was obtained from Kansas State University's Internal Review Board (IRB). Survey packets were mailed to 3,000 businesses randomly selected from the InfoGroup database of businesses in Missouri, Kansas, and Illinois. InfoGroup is a marketing based database of 21 million U.S. businesses and 220 million individuals. The database is most commonly used for marketing purposes by businesses seeking to identify a narrow range of potential customers based on a set of criteria. Although the research intention was to study family businesses, it was not known which businesses would be considered family businesses based on the sample. In addition, it was anticipated that the majority owner of the business would receive the packet and complete the survey. The survey packet included an introductory letter introducing the researcher and the research (Appendix A), a paper/pencil survey (Appendix B), and a postage paid return envelope. As part of the letter, there was also a link to the survey for business owners wishing to complete it online. The online

survey version was hosted by SurveyMonkey. For purposes of this study, only data from businesses that met family business inclusion criteria were utilized.

The survey (Appendix B) asked respondents about their personal demographic background, business demographic background, corporate performance, business formality, business succession planning, market conditions, family influence, and leadership. Personal demographic information included age, job title, gender, education level, ethnicity (e.g. African-American, Asian, Hispanic, Caucasian, etc.), religious affiliation, and marital status. Business demographic information included business age, business sector, business generation, metropolitan size, metropolitan growth prospects, number of employees, business lifecycle, industry lifecycle, growth strategy, business revenue, market value, percentage of family income derived from business, growth strategy, and ultimate disposition strategy. The survey asked questions about corporate performance based on a previously developed scale (Naman & Slevin, 1993) that measures sales revenue level, sales growth, cash flow, return on shareholder equity, gross margin, and net profits from operations. Business formality included whether the business has a mission statement, an updated strategic plan, a board which meets regularly, independent nonfamily board member(s), an organizational chart, updated job descriptions, a compensation development plan, an employee career path, and a formal employee review process. The survey asked questions about market conditions, which were based on a scale described below and include the rate of product/service obsolescence in the principal industry, predictability of competitors, need to change marketing practices, level of unpredictable demand, quickness of major production and service technology change, level of room for error, competitiveness of the environment, and amount of stress to keep afloat. The survey assessed access to capital by asking

the extent corporate cash is on hand, whether there is access to unused credit lines, and whether the family self-funds necessary business debt levels.

Respondents had three weeks to complete the survey. In order to increase response rates, a reminder postcard was sent (Appendix C) two weeks after the initial survey. These cards reminded respondents of the benefits of completing the survey and provided an extended time frame (an additional two weeks) for survey completion (Dillman, Smyth, & Christian, 2009). In addition, respondents were able to request survey results and to be entered into a drawing for an Apple iPad in order to provide an incentive for participation (Dillman et al., 2009). The survey was anticipated to take only 15 to 20 minutes to complete and was easy to understand. Because participation burden was low, a 15% response rate was expected.

Inclusion Characteristics

Inclusion characteristics to define family businesses consisted of those used by previous family business studies, including the F-PEC scale, which is meant to create inclusion criteria consistency between family business studies. Per the F-PEC scale, respondents with all of the following characteristics were included: (a) more than 40% of the voting shares were owned by the family (91% of respondents owned more than 80% of their family business), as indicated by the answer to the power F-PEC subscale questions; (b) at least two family members in the business were in a management capacity and/or on the governance board, as indicated by the answer to the experience F-PEC subscale questions; and (c) respondents scored at least a 40 out of 60 on the family culture F-PEC subscale questions, indicating that family members hold significant influence over the business. In addition, respondents were specifically asked about their intention to keep the business entity(ies) in their family for another generation and/or have the family together manage the family wealth derived from the business entity(ies). If they

intended to keep the business entity in the family for another generation or expressed that it was extremely important that the family actively manage wealth derived from the business intergenerationally, they were included, assuming business size requirements were met. Size requirements meant that the company had (d) at least 10 employees (with no upper limit); (e) a history of at least 10 years; and (f) a value between \$1 million and \$100 million. Family was defined as individuals related by blood, marriage, civil union, or adoption.

Measures

Extensiveness of Business Succession Preparedness (EBSP)

Consistent with Davis and Harveston (1998), the dependent variable measured the extensiveness of business succession preparedness (EBSP). In order to derive a measure that could be operationalized and was more inclusive of family businesses, the scale used by Davis and Harveston (1998) was adapted. This scale used by Davis and Harveston (1998) resulted from a Delphi study conducted by them. However, the psychometric data were unavailable. In order to ensure the scale used in this study had psychometric data, a Delphi study was conducted by the researcher. The previously used six-question scale was utilized in order to obtain a validated measure for the extensiveness of business succession planning. Questions for Davis and Harveston (1998)'s previously developed scale included the following: (a) has a successor been chosen who will assume operating control of your business; (b) has a successor not been considered; (c) has just one possible successor been considered; (d) have several potential successors been considered; (e) have you informed the successor of your choice; and (f) have you informed others? These questions originally resulted from a Delphi study of seven experts on family business succession who acted in an advisory capacity (Davis & Harveston, 1998).

Based on the literature, the following eight questions were added for purposes of the Delphi study conducted by the researcher, to create the EBSP measure. Several of the questions overlap those used by Davis and Harveston (1998). The eight questions added were: (a) is there currently a written ownership succession plan; (b) has a successor been chosen; (c) does the ownership succession plan include a time frame; (d) has the successor been made aware of your decision; (e) is the CEO increasingly delegating tasks that enable him/her to develop the successor; (f) is the successor ready to step in if unexpectedly required; (g) are family members inside the business aware of the ownership succession plan; and (h) is there an active development plan for the next-generation successor?

These 14 questions (six from Davis and Harveston (1998) and eight new questions) were sent to a group of nine business transition specialists. They were asked to identify which questions were relevant, add any additional statements they deemed critical, and rank items in order of importance for identifying succession preparedness. Six specialists responded, and as a result of the ranking of responses, the top eight questions included: (a) is there is currently a written ownership succession plan; (b) has a successor been chosen; (c) does the ownership succession plan include a time frame; (d) has the successor been made aware of your decision; (e) is the CEO increasingly delegating tasks that enable him/her to develop the successor; (f) is the successor ready to step in if unexpectedly required; (g) are family members inside the business aware of the ownership succession plan; and (h) is there an active development plan for the next-generation successor? Consistent with Davis and Harveston (1998), responses to all eight items were scored as either zero or one, based on whether the individual activity was present or not. Responses were summed to create a single measure, ranging from “0” (low) to “8” (high). The higher the score, the more extensive the succession planning had taken place.

This resulted in the dependent variable measure EBSP. A Principal Component Analysis (PCA) and Cronbach's alpha was performed in order to establish reliability and content validity on this new scale.

Owner Characteristics

The independent variables identifying the owner characteristics were defined based on the owners' responses to a series of questions in the survey. Respondents provided information about their age (AGE), gender (GENDER), education level (EL), race (RACE), religiosity (REL), marital status (MS), income from the business (OWNINC), percentage of household income the business represents (HHINC), percentage of household net worth tied up in the business (HHNW), intention to keep operating as an economic unit multigenerationally (MULTIINTENT), and leadership tendency (LEADER).

Age was calculated based on the respondents' self-reported chronological age. Respondents were asked whether they were male or female, coded 0 = *male* and 1 = *female*. Respondents were asked their education level using the following categories coded as: 1 = *less than high school graduate*, 2 = *high school diploma*, 3 = *associate degree*, 4 = *bachelor's degree*, 5 = *master's degree*, and 6 = *doctoral degree*. Respondents were asked their racial background based on the following categories coded as: 1 = *African American*, 2 = *Asian*, 3 = *Caucasian*, 4 = *Hispanic*, 5 = *Pacific Islander*, or 6 = *other*. The category was then dummy coded to create dichotomous variables for each answer, in which zero was equal to not of the race and one was equal to the race (i.e., 1 = *Caucasian* and 0 = *other*). Respondents were asked about their religiosity (e.g., "I place a great deal of importance on living a religious faith") based on a five-point Likert-type scale, ranging from 1 = *Strongly Disagree* to 5 = *Strongly Agree*. Respondents identified marital status based on the following coded categories: 1 = *Married*, 2 =

Divorced, 3 = *Separated*, 4 = *Widowed*, or 5 = *Single*. The category was then dummy coded to create dichotomous variables in which zero was equal to not having the marital status and one was equal to having the marital status (i.e., 1 = *Married* and 0 = *other*). Respondents identified the owner's current annual income, including business distributions, using the following categories coded as: 1 = less than \$100,000, 2 = \$100,000-\$499,999, 3 = \$500,000-\$1 million, and 4 = \$1 million and above. Respondents identified the percentage of the owner's income derived from the business, using the following categories coded as: 1 = under 25%, 2 = 26-49%, 3 = 50-74%, and 4 = 75% or more. Respondents identified the extent of the owner's financial stake in the business by identifying net worth tied up in the business(es), using the following categories coded as: 1 = under 25%, 2 = 26-49%, 3 = 50-74%, and 4 = 75% or more.

Respondents identified the extent they intend for the family to keep operating as an economic unit intergenerationally, with the wealth derived from the business, by responding to the statement, "To what extent is it important to you that the next generation continue to manage family wealth derived from the business(es) together?" Responses were based on a five-point Likert-type scale, ranging from 1 = *Not Important* to 5 = *Extremely Important*.

Leadership tendency was identified through a series of 15 previously used questions based on a seven-point Likert-type scale, ranging from 1 = *Strongly Disagree* to 7 = *Strongly Agree*. This measurement contained five subscales, which identified the leader as having one of five styles of leadership tendencies identified in family businesses: (a) expert, (b) participative, (c) autocratic, (d) laissez-faire/mission, or (e) referent (Sorenson, 2000).

The expert leadership subscale has previously been shown to have moderate reliability ($\alpha = .58$) and included two items: (a) is very knowledgeable in this profession and (b) is expert in

this profession. The answers to these items were summed, creating a potential subscale range from two to fourteen (Sorenson, 2000).

The participative leadership subscale has previously shown good reliability ($\alpha = .82$) and included four items: (a) encourages subordinates to participate in important decisions, (b) keeps informed about the way subordinates think and feel about things, (c) encourages subordinates to speak up when they disagree with a decision, and (d) helps subordinates with personal problems. The answers to these items were summed, creating a potential subscale range from four to twenty-eight (Sorenson, 2000).

The autocratic leadership subscale has previously shown moderate reliability ($\alpha = .61$), and included two items: (a) sometimes manipulates employees and (b) is very dominating. The answers to these items were summed, creating a potential subscale range from two to fourteen (Sorenson, 2000).

The laissez-faire/mission leadership subscale has previously shown good reliability ($\alpha = .71$) and included two items: (a) leaves employees alone to work and (b) transmits a sense of mission to employees. The answers to these items were summed, creating a potential subscale range from two to fourteen (Sorenson, 2000).

The referent leadership subscale also has previously demonstrated good reliability ($\alpha = .84$) and included five items: (a) is always fair with employees, (b) inspires loyalty, (c) shows great insight about doing his/her job, (d) is a model for employees to follow, and (e) makes employees proud to be associated with him/her. The answers to these items were summed, creating a potential subscale score range from five to thirty-five (Sorenson, 2000).

Enterprise Characteristics

The independent variables identifying enterprise characteristics were defined based on the owners' responses to a series of questions in the survey. Respondents provided information about CEO tenure (CEOTEN), when the CEO will retire (CEORETIRE), the age of their business (BUSAGE), business sector (BUSSEC), number of employees (EMPLOYEES), business lifecycle (BUSLFCYC), business revenue (BUSREV), business revenue trend (BUSREVTR), business book value (BOOKVAL), business market value (MKTVAL), growth strategy (GROSTRAT), likely ultimate business disposition (BUSDISP), and corporate performance (CORPPERF).

Respondents were asked the CEO tenure based on the following response categories coded as: 1 = 0-4 years, 2 = 5-8 years, 3 = 9-12 years, 4 = 13-16 years, 5 = 17-20 years, and 6 = more than 20 years.

Respondents were asked when the current CEO will retire based on the following categories coded as: 1 = 0-2 years, 2 = 3-4 years, 3 = 5-6 years, 4 = 7-8 years, 5 = 9-10 years, and 6 = more than 10 years.

Respondents were asked the age of their business based on the following categories coded as: 1 = 0-9 years, 2 = 10-29 years, 3 = 30-49 years, 4 = 50-69 years, 5 = 70-89 years, and 6 = 90 or more years.

Respondents were asked the industry of their business based on the following response categories coded as: 1 = *mining*, 2 = *construction*, 3 = *manufacturing*, 4 = *transportation*, 5 = *wholesale/distributors*, 6 = *retail*, 7 = *services*, 8 = *finance, insurance & real estate*, 9 = *agriculture*, and 10 = *other*. The category was then dummy coded to create dichotomous

variables, in which zero was equal to not of the industry and one was equal to the industry (i.e., 1 = *Mining* and 0 = *other*).

Respondents were asked the number of employees the business has based on the following categories coded: 1 = 0-24, 2 = 24-49, 3 = 50-74, 4 = 75-100, and 5 = more than 100.

Respondents were asked the business life cycle based on the following categories coded as: 1 = *start-up*, 2 = *rapid growth*, 3 = *growth*, 4 = *maturity*, and 5 = *decline*.

Respondents were asked the business gross revenue based on the following categories coded as: 1 = \$1-\$4.99mm, 2 = \$5-\$9.99mm, 3 = \$10-\$19.99mm, 4 = \$20-\$49.99mm, 5 = \$50-\$99.99mm, and 6 = \$100mm or more.

Respondents were asked the business revenue trend for the past three years and projected for the next three years based on the following categories coded as: 1 = *increasing*, 2 = *level*, or 3 = *decreasing*. Respondents were asked the business book value based on the following categories coded as: 1 = \$1-\$4.99mm, 2 = \$5-\$9.99mm, 3 = \$10-\$19.99mm, 4 = \$20-\$49.99mm, 5 = \$50-\$99.99mm, and 6 = \$100mm or more.

Respondents were asked the business market value based on the following categories coded as: 1 = \$1-\$4.99mm, 2 = \$5-\$9.99mm, 3 = \$10-\$19.99mm, 4 = \$20-\$49.99mm, 5 = \$50-\$99.99mm, and 6 = \$100mm or more.

Respondents were asked the business growth strategy based on the following categories coded as: (1) *acquisition*, (2) *heavy marketing*, (3) *word of mouth*, and (4) *other*. The category was then dummy coded to create dichotomous variables in where zero was equal to marketing category not used and one was equal to the marketing category (i.e., 1 = *Acquisition* and 0 = *other*).

Respondents were asked the ultimate most likely business disposition based on the following potential business disposition categories coded: 1 = *Sell the business to a family member(s)*, 2 = *Sell the business to one or more key employees*, 3 = *Sell to all employees using an Employee Stock Ownership Plan (ESOP)*, 4 = *Sell to nonfamily co-owners*, 5 = *Sell to an outside third party*, 6 = *Engage in an Initial Public Offering (IPO)*, 7 = *Retain ownership but become a passive owner*, and 8 = *Liquidate*. The category was then dummy coded to create dichotomous variables in which zero was equal to no business disposition and one was equal to the business disposition (i.e., 1 = *Sell to family members* and 0 = *other*).

Respondents were asked to assess their corporate performance based on the past three years. The following indicators were assessed: (a) Sales revenue level, (b) Sales revenue growth rate, (c) Cash flow, (d) Return on shareholder equity, (e) Gross profit margin, and (f) Net profits from operations. Each indicator was assessed twice. The first assessment was used to ask the degree of importance respondents attach to the six performance indicators using a five-point Likert-type scale, ranging from 1 = *Not Important* to 5 = *Extremely Important*. The results were then summed with total scores ranging from 5-30. The second assessment was used to ask respondents their level of satisfaction for each of the six indicators on a 5-point Likert-type scale, ranging from 1 = *Highly Dissatisfied* to 5 = *Highly Satisfied*. The results were then summed with total scores ranging from 5-30. Performance indicators 1-6 were used by Westhead (2003), but derived from Naman and Slevin (1993). An average performance score was previously calculated for each company surrounding its financial performance, as reported over the past three years. Westhead (2003) found a Cronbach's Alpha ($\alpha = .75$), indicating good internal consistency of the reliability of the scale.

Business Formality

The independent variables identifying the extent of business formality were defined based on the owners' responses to a series of statements found in the literature. Statements (a) through (f) were derived by Davis and Harveston (1998). Statements (g) through (j) were derived by Lansberg (1988) and Ward (1987). Statements (k) through (n) were derived by Lansberg (1988), Sharma et al (2000), and Ward (1987). Formalizing statements included: (a) there are up to date written job descriptions (JOBDESC); (b) there are fixed compensation plans (FIXCOMP); (c) there is a formal employee performance review process (EMPREV); (d) there is a formal board (BOARD); (e) regular quarterly board meetings are held (REGBOARD); (f) there is at least one outside board member (OUTBOARD); (g) the board insists on a succession plan (BOARDSUCC); (h) there is a written mission statement (MISSSTAT); (i) there is an up-to-date organizational chart (ORGCHART); (j) there is a written strategic plan (STRATPLAN); (k) there is an employee career path (CARPATH); (l) there is an up-to-date employee manual (EMPMAN); (m) there is a key management team development plan (KEYDEV); and (n) there is an up-to-date buy/sell agreement (BUYSELL). Respondents were asked the extent they agree to each statement based on a five-point Likert-type scale, ranging from 1 = *Completely Disagree* to 5 = *Completely Agree*.

Family Influence

Until recently there were no widely accepted scales to measure family influence in a business context and therefore no way to define family business that would be consistent across studies, making study comparisons problematic (Astrachan, Klein, & Smyrnios, 2002; Klein et al., 2005). As a result of different applied definitions, the percentage of family business in one sample can differ between 15% and 81% (Westhead, Cowling, & Storey, 1997). As a result, in

order to ensure a consistently applied definition, the Family – Power, Experience, and Culture (F-PEC) scale was derived by Astrachan, Klein, and Smyrnios (2002) in order to provide a consistent measure to identify which businesses are family businesses (Klein et al.)

The F-PEC scale of family influence is an index of family influence that represents three dimensions or subscales, including: power, experience, and culture. The scale operationalizes what is meant by family business (Klein et al., 2005). Power refers to dominance exercised through financing, ownership, leading, and controlling the business through management and governance participation by the family. As a result, the power subscale measures the proportion of share ownership, the percentage of top management positions, and the proportion of board seats held by the family. Experience refers to the collective experience that the family brings into the business. Culture refers to values and commitment as measured by the Family Business Commitment Questionnaire (Carlock & Ward, 2001; Klein et al.). Family commitment refers to the overlap of business and family values.

The F-PEC scale of family influence represents a promising framework for characterizing a continuous spectrum of businesses consistent with the extent of family involvement (Chrisman et al., 2005). The three subscales of power (3 items), experience (3 items), and culture (12 items) have previously shown to have acceptable internal consistency with Cronbach's alpha for power ($\alpha = .75$), experience ($\alpha = .96$), and culture ($\alpha = .93$) (Klein et al., 2005).

For purposes of the F-PEC scale, several definitions are important (Klein et al., 2005). *Family* is defined as a group of persons including those who are either offspring of a couple (no matter what generation) and their in-laws, as well as their legally adopted children. *Ownership* means legal title to stock or company capital. *Management Board* refers to the company Board that manages or runs an organization(s). Persons named through family members represent the

ideas, goals, and values of the family. The founding generation is viewed as the first generation. Active family members involve those individuals who contribute substantially to the business. These family members might hold official positions in the business as shareholders, board members, or employees.

Respondents provided information about power issues to create the power subscale (POWER) based on the following four questions. First, respondents were asked the percentage of family versus nonfamily ownership based on the following responses coded as: 1 = Less than 20%; 2 = 20-39%; 3 = 40-59%; 4 = 60-79%; or 5 = 80-100%. Second, if the shares were held in another entity or trust coded based on the following coded responses: 0 = *No* or 1 = *Yes*. If yes, then respondents were asked the percentage of the main company owned by: direct family, direct nonfamily, or holding company (all treated as continuous variables). Then the percentage of the holding company owned by family and the percentage owned by nonfamily (treated as a continuous variables) was ascertained. Respondents were then asked the percentage of a second holding company that owns them and the percentage of family ownership of the second holding company, both treated as continuous variables. Third, respondents were asked whether the business had a governance board. Responses were coded: 0 = *No* or 1 = *Yes*. If yes, then how many family members (treated as a continuous variable), how many board members are family members (treated as a continuous variable), and how many nonfamily (external) members nominated by the family were on the Board (treated as a continuous variable) were ascertained. Fourth, respondents were asked if the business has a management Board based on the following coded responses: 0 = *No* or 1 = *Yes*. If yes, then how many persons did it comprise (treated as a continuous variable), how many family members (treated as a continuous variable), and how many nonfamily Board members were chosen through them (treated as a continuous variable)

was ascertained. The results were summed into a subscale to create a continuous variable measure ranging from 0-20 (Astrachan, Klein, & Smyrniotis, 2002).

Respondents provided information about their level of experience to create the experience subscale (EXPERIENCE). Respondents were asked: (a) the generation of the business; (b) which generation manages the business; and (c) what generation is active on the governance board? Responses were coded: 1 = *1st generation*; 2 = *2nd generation*; or 3 = *3rd generation+*. The results were summed into a subscale to create a continuous variable measure ranging from 3-9 (Astrachan, Klein, & Smyrniotis, 2002).

Respondents provided information about the culture to create the culture subscale (CULTURE) through twelve statements in which respondents were asked the extent they agree based on the following five-point Likert-type scale: 1 = *Strongly Disagree* and 5 = *Strongly Agree*. Statements included: (a) your family has influence on your business; (b) your family members share similar values; (c) your family and business share similar values; (d) family members support the family business in discussions with friends, employees, and other family members; (e) family members feel loyalty to the family business; (f) family members are proud to tell others that we are part of the family business; (g) there is so much to be gained by participating with the family business on a long-term basis; (h) family members agree with the family business goals, plans, and policies; (i) family members really care about the fate of the family business; (j) deciding to be involved with the family business has a positive influence on my life; (k) I understand and support my family's decision regarding the future of the family business; and (l) family members are willing to put in a great deal of effort beyond that normally expected to help the family business be successful. The results were summed into a subscale to create a continuous variable measure ranging from 12-60 (Astrachan, Klein, & Smyrniotis, 2002).

Respondents provided information about the extent of spousal influence (SPOUSINF) on the business based on several questions. Respondents were asked whether the owner's spouse works in the business. Answers were based on the categories of yes or no coded as 0 = *No* or 1 = *Yes*. Respondents were then asked the average weekly number of hours the spouse spends working in the business based on the following categories coded as: 1 = 0-19 hours; 2 = 20-29 hours; 3 = 30-39 hours; or 4 = 40+ hours. Respondents were then asked the level of influence the spouse has over the succession plan based on the following Likert-type scale ranging from 1 = *None*, to 4 = *High*.

Access to Capital

Consistent with Westhead (2003), the independent variables identifying the extent of resources were defined based on the owners' responses to a series of questions in the survey. Access to capital was measured on a four-point Likert-type scale, ranging from 1 = *Poor* to 5 = *Excellent*, to determine the extent that business owners felt that they have access to capital they feel is needed to run their businesses. Respondents were asked: How would you rate access to capital necessary for the business (CAPACC)? Then, the importance of various capital sources was ascertained based on three questions. Answers to questions were measured on a five-point Likert-type scale ranging from 1 = *Not Important* to 5 = *Extremely Important*. The first question was: How important is access to family capital (FAMCAP)? Family capital represents funds sourced from family members' savings for the purpose of ongoing business operations or expansion. The second question was: How important is access to internal business reserves (BUSCAP)? Business reserves represent dividends and distributions that are not paid out, but are instead kept in the business for the purpose of ongoing business operations or expansion. The third question was: How important is access to bank loans or external lines of credit (EXCAP)?

These funds represent outside funding infusions for the purpose of ongoing business operations or expansion.

External Environment

Consistent with Westhead (2003), the external environment variables were ascertained using the owners' responses to a series of statements in the survey. Respondents provided information about the metropolitan size (METSIZE) of the primary area of business operations and growth prospects of the metropolitan area (METGROW). In addition, the external economic turbulence (TURB) currently being experienced by the business was ascertained. In addition, the tax environment (TAX), industry lifecycle (INDLFCYC), and regulatory environment (REGREQ) were ascertained in order to measure their impact on the extensiveness of business succession preparedness.

Respondents were asked the metropolitan size of the area their business headquarters based on the following Department of Education categories and codes: 1 = *Large City or suburb* of (population > 250,000), 2 = *Midsized City or suburb* of (25,000-250,000), 3 = *Large Town* (25,000-250,000) *no suburbs*, 4 = *Small Town* (2,500-25,000), and 5 = *Rural* (less than 2,500). Respondents were asked the metropolitan area growth prospects based on the following categories coded: 1 = *Sharp decline*, 2 = *Decline*, 3 = *Stable*, 4 = *Growth*, and 5 = *High growth*.

Respondents were asked the extent of external economic turbulence based on eight environmental variables using a five-point Likert-type scale where: 1 = *Strongly Disagree* to 5 = *Strongly Agree*. A score of three on the scale suggests both statements are equally characteristic of their business's principal activity. The following were the statements utilized: (a) the rate of product/service obsolescence in our principal industry is very high; (b) actions of competitors are unpredictable; (c) our business unit must frequently change its marketing practices (e.g., semi-

annually); (d) demand and consumer tastes are almost unpredictable; (e) the modes of production/service technology change often and in major ways; (f) very risky, a false step can lead to the business's undoing; (g) a dominating environment in which my business's initiatives count for very little against the tremendous competitive, political or technological forces; and (h) very stressful, exacting, hostile, very hard to keep afloat. The first five statements were used by Westhead, but derived from Miller and Friesen (1982). The last three questions were added by Westhead. Original statements represent perceptions of environmental hostility and were derived from Khandwalla (1977). The results were summed into a scale to create a continuous variable measure, ranging from 8-40. Westhead (2003) previously determined that the external turbulence scale has a Cronbach's Alpha of .70, demonstrating good reliability.

Respondents were asked the extent that an uncertain tax environment impacts succession preparedness using a five-point Likert-type scale from 1 = *Strongly Disagree* to 5 = *Strongly Agree*. The statement used was, "Uncertainty in the current tax environment is a motivation for succession planning." Respondents were asked the industry life cycle using the following response categories and codes: 1 = *Start-up*, 2 = *Rapid Growth*, 3 = *Growth*, 4 = *Maturity*, to 5 = *Decline*. Respondents were asked the extent that a business succession plan is required by industry regulators based on a five-point Likert-type scale from 1 = *Strongly Disagree* to 5 = *Strongly Agree* based on the following statement, "I am in a regulated industry that requires a business succession plan."

Moderating Variable

A moderating variable influences the strength between two other variables by affecting the direction and/or strength of the relationship between the independent variable and a dependent variable (Field, 2009). Consistent with Davis and Harveston (1998), business

generation (BUSGEN) was defined as a moderating variable. Respondents were asked the business generation based on the youngest family members who are in the business and old enough to hold responsibilities, using the following response categories coded: 1 = *1st generation*; 2 = *2nd generation*; and 3 = *3rd generation+*.

Analysis

Data from the survey were analyzed with IBM SPSS Version 19.0 (SPSS, 2010) social science research software. First, a Principle Component Analysis (PCA) was conducted to confirm the construct validity of the Extent of Business Succession Preparedness (EBSP) scale created through a Delphi study. Factors were then assessed for their levels of internal reliability. Second, a Pearson Product-Moment correlation was utilized to determine the strength and direction of the relationship between variables and summed scales and determine potential multicollinearity. Third, an ordinary least square regression was utilized to determine variance explained by each individual variable in the model and which variables contributed the most to each group. Groups of variables included: (a) owner characteristics; (b) organizational characteristics; (c) business formality; (d) family influence; (e) access to resources; and (f) external environmental conditions. Fourth, variables were centered. Fifth, a Principal Component Analysis (PCA) was used to identify the number of factors within each group and derive an Anderson Rubin factor score for each factor within the group. These scores served as latent variables. Sixth, a hierarchical regression was used, based on Anderson Rubin factor scores identified within each group of variables, to determine whether the interaction variable (i.e., generation of the business) moderated each group, as measured by increased R^2 (i.e., amount of variability explained by the model). Finally, a hierarchical regression was used, based on overall factor scores identified, to determine whether the interaction variable, generation of the business,

moderated the entire family business succession model, as measured by increased R^2 . In order to minimize the effect of skewness in the distribution of the business size, the natural log of size was utilized when the distribution was positively skewed. A description of each method utilized in this study is provided in the following sections.

Due to the importance of the sample size, missing data were addressed as follows: If most sections were complete, the survey results were entered and means were used to replace the data. If a survey was mostly incomplete it was entirely eliminated.

Multicollinearity, Centering, and Statistical Power

Multicollinearity exists when two or more variables are very closely related linearly. As two or more variables become too highly correlated, it becomes difficult to identify which one is causing an effect on another variable. Multicollinearity results when a higher than normal level of standard errors exist, resulting in confidence intervals for coefficients being large and t-statistics tending to be too small. As a result, coefficients will have to be larger in order to be statistically significant (Field, 2009).

While a researcher can be in a position where multicollinearity is simply a reality of highly correlated variables, to ensure multicollinearity is minimized and not a result of research methodology, several steps were taken. First, a correlation analysis was conducted. Second, a large enough sample size for the analysis was obtained in order to increase precision of parameter estimates. Third, where summing was used, it did not include an item that is also being measured separately. Finally, centering was used on independent variables (Field, 2009).

Centering involves transforming variables into deviations around a set point to shift the scale, making it more interpretable (Field, 2009). The mean of each group was used separately for variables within the respective group. This was done by taking each independent variable and

subtracting the mean of all group scores. Group mean centering was done within each group on continuous variables in order to center independent variables within the mean to minimize multicollinearity between independent variables and make the results more meaningful. This adds value to each group when a value of the independent variable of zero is meaningless.

Statistical power was assessed. The statistical significance level is the probability that a Type I error will be avoided (rejecting a null hypothesis that is true and is selected prior to the research project). The higher the p-value, the more likely it is that the null hypothesis will be rejected (Type I error). This can happen when a significant difference is perceived between the sample means when there isn't one. However, the lower the p-value (e.g., $\alpha = .001$), the more likely it is that a false null hypothesis will be accepted (Type II error). This happens when it is perceived that there is not a significant difference between the sample means when there is one (Field, 2009).

Principal Component Analysis

Principal Component Analysis (PCA) is a multivariate technique used to examine the extent of correlation between a set of variables as a result of their relationship with each other, as opposed to other variables in the data set. PCA is used to reduce the amount of data and can be used to estimate the underlying factors by calculating a mathematical model for how factors are derived (Field, 2009). PCA was used to understand the structure of variables associated with family business succession preparedness.

Suitability of data for the PCA was assessed by looking for and selecting coefficients of .4 and above. In addition, the Kaiser-Meyer-Olkin value was assessed to ensure a score of .6 or higher. A scree plot was used to identify a clear break between factors. In addition, the Bartlett's Test of Sphericity was used to determine if statistical significance was reached, and as a result,

the factorability of the correlation matrix supported and the percentage of variance explained were identified (Field, 2009). PCA was performed on the dependent variable, the extensiveness of the succession preparedness. The answers provided by the PCA were of particular importance, as the resulting score acted as the measure of extensiveness of succession preparedness, which was a core measure in this study. In addition, PCA was utilized for each group of variables to identify the number of factors within each group and create latent variable factor scores (e.g., owner characteristics, enterprise characteristics, business formality, family influence, access to capital, and external environmental factors; see Figure 3.1). As a result, an Anderson Rubin factor score was created for each element of the model. These constructs were used as input in a hierarchical regression to test the entire Family Business Succession Model and to identify the generational effect associated with each group of variables and the model as a whole.

Anderson Rubin is a variation of the Bartlett method, in which the least squares formula is adjusted to produce composite factor scores that are standardized and uncorrelated with other factors (Field, 2009). The resulting factor scores are orthogonal, with a mean of zero and a standard deviation of one (Field, 2009). Anderson Rubin factor scores were chosen over regression factor scores or Bartlett factor scores because they minimize multicollinearity and potential error. The drawback of these other methods was that the estimated factors may have been correlated, despite potentially conflicting assumptions (Field, 2009). Anderson Rubin scores were automatically generated in SPSS by selecting the Anderson Rubin option in the Factor Analysis Factor Scores window.

Correlation Analysis

All hypotheses utilized a Pearson Product-Moment correlation to determine the relationship between each ratio/interval level variable, based on normal distributions. This is a

standardized measure of the strength of the relationship and direction of relationship between two variables, scores can range from 1.0 to -1.0 (Field, 2009). This analysis addressed the extent to which variables change together and the strength of relationships between independent variables and between the independent variables and dependent variable, which was the extensiveness of business succession preparedness.

Ordinary Least Squares Regression

Ordinary Least Squares (OLS) analysis was used to estimate unknown parameters in a linear regression model. The sum of vertical distances between responses observed in the dataset and responses associated by the linear approximation of distance was minimized. OLS is considered a maximum likelihood estimator because it is assumed that the errors are normally distributed. Estimators are optimal when errors are both serially uncorrelated and homoscedastic (Field, 2009). Regression is an attempt to fit a model to data in a linear fashion.

There was an underlying assumption that there is a linear relationship between the extensiveness of business succession preparedness and variables tested within each of the six groups. As a result, OLS regression was used to determine which variables were associated with the extensiveness of business succession preparedness and the extent of the linear relationship. By testing each factor against the extensiveness of business succession preparedness, it was determined if the data fit the model well.

While the correlation analysis allowed observations around correlation and significance, the OLS allowed an analysis of the variance explained by each variable and also allowed an analysis of which variables contributed the most to each group of variables. The hierarchical regression discussed below was only conducted with latent variables. As a result, variables found

to contribute the most to the hierarchical regression will be constructs, as opposed to the original variables.

Hierarchical Regression

Hierarchical regression is a form of multiple regression, where the order of independent variables entered into the regression model is determined based on previous research with known independent variables entered first and unknown variables entered subsequently (Field, 2009). It is the change in R^2 statistic that is often of most interest when there is a reason for adding independent variables, or groups of them, in a particular order (Field, 2009). In addition, the amount of variance explained by the model and identification of the most important latent variables will result from the hierarchical regression.

A series of six hierarchical regression analyses allowed for the confirmation of PCA identified latent factors within each group of hypotheses. Through hierarchical regression, the effect of the latent variables within each group (e.g., owner characteristics, enterprise characteristics, business formality, family influence, access to capital, and external environment) on the extensiveness of business succession preparedness was measured. In addition, a hierarchical regression was performed that included all PCA identified latent variables. This process was then repeated, adding the variable of business generation as an interaction variable (i.e., latent variable multiplied by the interaction variable) into a second hierarchical regression block. This procedure was conducted for each group of hypotheses as well as on the entire model.

The Anderson Rubin factor scores developed for the latent variables of owner characteristics, enterprise characteristics, business formality, family influence, access to capital, and external environmental factors were entered into respective hierarchical regressions to test

moderation of business generational level on business succession preparedness. This allowed an analysis of the contribution of business generation (i.e., 1st, 2nd, 3^{rd+}) to the results obtained on the model as a whole (see Figure 3.1).

The change in R^2 can help to identify moderating effects when the interaction variable is added to the predictor and moderating variable (Field, 2009). R^2 is defined as the percentage of response variable variation that can be explained by a linear model and ranges from zero to one. The explanatory power is higher when the score is closer to one (Field, 2009). It is also seen as the extent that the independent variables predicts the dependent variable (i.e., EBSP; Field, 2009). In this study, the R^2 change was assessed to determine if adding the interaction variable to the predictor and moderator variables increased R^2 (i.e., explanatory power) and whether that change was significant (i.e., $p < .05$). In this study, significant interactions identify a generational moderating effect between the independent variable and EBSP. The problem of multicollinearity was minimized by mean centering the independent and moderating variables and creating Anderson Rubin factor scores which minimized the correlation between the independent and moderating variables.

Summary

The goal of this study was to explore the relationship between succession preparedness and the activities of various systems, specifically the family, business enterprise, and ownership. Because this phenomenon is complex and in order understand it better, the study measured the impact of owner characteristics, enterprise characteristics, business formality, family influence, access to resources, and external environmental conditions on the extensiveness of business succession preparedness. Business generation acted as a moderating variable to help explain this phenomenon. While there are many valuable results that have come out of this study, the most

important contribution to the literature was creating a better understanding of the need to formalize a business in order to ensure succession preparedness. As a result, business formality has become its own independent variable for this study, where in previous studies it was part of organizational characteristics. The results of the study will better help family business practitioners and researchers understand the dynamics that influence the extensiveness of business succession preparedness.

Chapter 4 - Results

Sample Characteristics

Data were obtained by mailing 3,000 anonymous paper-pencil surveys in addition to a link to the survey online at SurveyMonkey to business owners in the states of Illinois, Missouri, and Kansas. A total of 170 (5.8%) completed surveys were returned. Of those returned, 128 (4.4%) were useable based on fitting the criteria of being a family business described in Chapter 3. In addition, 110 (3.7%) were returned undeliverable.

The useable response rate of 4.4% is not the full story because family businesses were not specifically identified as recipients of the survey. A large proportion of respondents, 75.3% (128 out of 170), were determined to be family businesses based on inclusion criteria outlined in Chapter 3. The survey included language seeking answers from family businesses and the researcher was intended to make a determination as to which ones were family businesses, as opposed to the respondent. However, due to the survey being identified as a family business survey, a self-selection bias may have resulted due to some business owners not completing the survey because they did not consider themselves to be family businesses.

The purpose of the study was to measure the extensiveness of business succession preparedness in family businesses against owner characteristics, enterprise characteristics, business formality, family influence, access to resources, and external environmental conditions with business generation acting as a moderating variable to help explain this phenomenon. As a result, the sample was limited to those respondents who were determined to be family businesses ($N = 128$). Complete descriptive statistics and coding for the demographic variables of the sample are presented separately for the primary business owner (Table 4.1), the business (Table 4.2), and the external environment (Table 4.3).

Primary Business Owner Demographics

The average age of respondents was 58.48 ($SD = 10.68$) years, and 91.3% were male. Marital status was ascertained; 85.2% ($n = 109$) of respondents were married, 6.3% ($n = 8$) were divorced, 2.3% ($n = 3$) were separated, 3.1% ($n = 4$) were widowed, and 3.1% ($n = 4$) were single. The maximum formal education level of the sample was as follows: (a) 3.1% ($n = 4$) had some high school, (b) 32% ($n = 41$) had a high school diploma, (c) 7.8% ($n = 10$) had an associate's degree, (d) 38.3% ($n = 49$) had a bachelor's degree, (e) 14.8% ($n = 19$) had a master's degree, and (f) 3.9% ($n = 5$) had a doctoral degree. Most of the sample reported their ancestry as Caucasian (96.1%, $n = 122$), while .8% ($n = 1$) identified themselves as African American, .8% ($n = 1$) identified themselves as Asian, and 2.4% ($n = 3$) identified themselves as Other.

Total annual income was divided among the following categories: (a) less than \$100,000, (b) \$100,000-\$499,999, (c) \$500,000-\$1 million, and (d) \$1 million and above. The average owner total annual income was in the range of \$100,000-\$499,999 ($M = 2.3$, $SD = .97$). The percentage of the owner's household income derived from the business was divided among the following categories: (a) under 25%, (b) 26-49%, (c) 50-74%, and (d) 75% or more. The average percentage of the owner's household income derived from the business was in the range of 50-74% ($M = 3.63$, $SD = .76$). The percentage of the owner's net worth tied up in the business(es) was divided among the following categories: (a) under 25%, (b) 26-49%, (c) 50-74%, and (d) 75% or more. The average percentage of the owner's net worth tied up in the business(es) was in the range of 50-74% ($M = 3.04$, $SD = 1.01$).

Table 4.1 Demographic Characteristics of Primary Business Owners

Business owner characteristics and codes	%	<i>M</i>	<i>SD</i>
Age		58.48	10.68
Marital Status			
Married = 1	85		
Divorced = 2	6		
Separated = 3	2		
Widowed = 4	3		
Single = 5	3		
Gender		0.09	0.28
Male = 0	91		
Female = 1	9		
Education Level		3.41	1.27
Some High School = 1	3		
High School Diploma = 2	32		
Associates Degree = 3	8		
Bachelor's Degree = 4	38		
Master's Degree = 5	15		
Doctoral Degree = 6	4		
Primary Ancestry			
African American=1	1		
Asian = 2	1		
Caucasian = 3	96		
Hispanic = 4	0		
Pacific Islander = 5	0		
Other = 6	3		
Household Income		2.30	0.97
Less than \$100,000 = 1	18		
\$100,000-\$499,999 = 2	53		
\$500,000-\$999,999 = 3	10		
\$1 million+ = 4	19		
Percentage of Household Income From Family Business		3.63	0.76
Under 25% = 1	3		
25-49% = 2	8		
50-74% = 3	13		
75% or More = 4	77		
Percentage of Owner's Net Worth From Family Business		3.04	1.01
Under 25% = 1	12		
25-49% = 2	14		
50-74% = 3	32		
75% or More = 4	42		

Business Demographics

CEO tenure was ascertained by dividing time among the following categories: (a) 0-4 years, (b) 5-8 years, (c) 9-12 years, (d) 13-16 years, (e) 17-20 years, and (f) 20+ years. The average CEO tenure was between 4 and 5 ($M = 4.58$, $SD = 1.75$), indicating significant CEO tenure. Based on the sample, 9.8% ($n = 12$) had tenure of between 0 and 4 years, 8.2% ($n = 10$) had tenure of between 5 and 8 years, 11.5% ($n = 14$) had tenure of between 9 and 12 years, 6.6% ($n = 8$) had tenure of between 13 and 16 years, 12.3% ($n = 15$) had tenure of between 17 and 20 years, and 51.6% ($n = 63$) had tenure of greater than 20 years.

The anticipated CEO years before retirement was divided among the following categories: (a) 0-2 years, (b) 3-4 years, (c) 5-6 years, (d) 7-8 years, (e) 9-10 years, and (f) 10 or more years. The average CEO years until retirement was closest to 4 ($M = 4.18$, $SD = 1.67$), indicating that despite long CEO tenure, it was anticipated that there were many years left before retirement. Based on the sample, 6.6% ($n = 8$) anticipated an additional 0 to 2 years before retirement, 13.2% ($n = 16$) anticipated an additional 3 to 4 years before retirement, 21.5% ($n = 26$) anticipated an additional 5 to 6 years before retirement, 10.7% ($n = 13$) anticipated an additional 7 to 8 years before retirement, 9.9% ($n = 12$) anticipated an additional 9 to 10 years before retirement, and 38% ($n = 46$) anticipated an additional 10 or more years before retirement.

The business age was divided among the following categories: (a) 0-9 years, (b) 10-29 years, (c) 30-49 years, (d) 50-69 years, (e) 70-89 years, and (f) 90 or more years. The average business age was between 30-49 years or the category coded 3 ($M = 3.16$, $SD = 1.17$), indicating average business ages of 30 to 49 years. Based on the sample, none ($n = 0$) had been in business for 0 to 9 years, 33.9% ($n = 43$) had been in business for 10 to 29 years, 37.8% ($n = 48$) had been in business for 30 to 49 years, 13.4% ($n = 17$) had been in business for 50 to 69 years, 8.7% ($n =$

11) had been in business for 70 to 89 years, and 6.3% ($n = 8$) had been in business for more than 90 years.

The business sector was divided among the following categories: (a) mining, (b) construction, (c) manufacturing, (d) transportation, (e) wholesale distributors, (f) retail, (g) services, (h) finance, insurance, and real estate, (i) agriculture, and (j) other. Based on the sample, none ($n = 0$) had primary operation as mining, 10.9% ($n = 14$) had their primary operation as construction, 15.6% ($n = 20$) had their primary operation as manufacturing, 5.5% ($n = 7$) had their primary operation as transportation, 11.6% ($n = 11$) had their primary business operation as wholesale distributors, 17.2% ($n = 22$) had their primary operation as retail, 20.3% ($n = 26$) had their primary operation as services, 3.1% ($n = 4$) had their primary operation as finance, insurance, and real estate, 3.9% ($n = 5$) had their primary operation as agriculture, and 14.8% ($n = 19$) had their primary operation as other.

The total number of employees was divided among the following categories: (a) 0-24, (b) 25-49, (c) 50-74, (d) 75-99, and (e) 100 or more. The average number of employees was between the categories coded 2 and 3 ($M = 2.35$, $SD = 1.31$), indicating the average number of employees was between 25 and 74. Based on the sample, 27.6% ($n = 35$) had 0 to 24 employees, 43.3% ($n = 55$) had 25 to 49 employees, 9.4% ($n = 12$) had 50 to 74 employees, 6.3% ($n = 8$) had 75-99 employees, and 13.4% ($n = 17$) had more than 100 employees.

The business generation, based on the youngest generation in the business, was divided among the following categories: (a) first generation, (b) second generation, (c) third generation or more. The average business generation was closest to 2 ($M = 1.85$, $SD = .76$). Based on the sample, 37.8% ($n = 48$) were first generation, 39.4% ($n = 50$) were second generation, and 22.8% ($n = 29$) were third generation or more.

Total annual business gross revenue was divided among the following categories: (a) \$1 to \$4.99 million, (b) \$5 to \$9.99 million, (c) \$10 to \$19.99 million, and (d) \$20 to \$49.99 million, (e) \$50 to \$99.99 million, and (f) \$100 million and above. The average total business gross revenue was between \$5 and \$9.99 million or the category coded 2 ($M = 2.14$, $SD = 1.32$).

Total business book value was divided among the following categories: (a) \$1 to \$4.99 million, (b) \$5 to \$9.99 million, (c) \$10 to \$19.99 million, (d) \$20 to \$49.99 million, (e) \$50 to \$99.99 million, and (f) \$100 million and above. The average business book value was in the range between the categories coded 1 and 2 ($M = 1.56$, $SD = .92$).

Total business market value was divided among the following categories: (a) \$1 to \$4.99 million, (b) \$5 to \$9.99 million, (c) \$10 to \$19.99 million, (d) \$20 to \$49.99 million, (e) \$50 to \$99.99 million, and (f) \$100 million and above. The average business market value was in the range between the categories coded 1 and 2 ($M = 1.85$, $SD = 1.11$).

The business primary growth strategy was divided among the following categories: (a) acquisition, (b) heavy marketing, (c) word of mouth, or (d) other. Based on the sample, 9.7% ($n = 12$) planned to grow through acquisition, 23.4% ($n = 29$) planned to grow through heavy marketing, 46.8% ($n = 58$) planned to grow through word of mouth, and 20.2% ($n = 25$) planned to grow through other means.

Businesses were asked whether they benchmarked against industry ratios based on yes/no response categories. The average percentage of businesses that benchmark was ($M = .67$, $SD = .49$), indicating two-thirds of respondents do not benchmark against industry ratios.

Table 4.2 Business Demographics

Business characteristics and codes	%	<i>M</i>	<i>SD</i>
CEO Tenure		4.58	1.75
0-4 years = 1	10		
5-8 years = 2	8		
9-12 years = 3	12		
13-16 years = 4	7		
17-20 years = 5	12		
20+ years = 6	52		
Anticipated Years Before Retirement		4.18	1.67
0-2 years = 1	7		
3-4 years = 2	13		
5-6 years = 3	22		
7-8 years = 4	11		
9-10 years = 5	10		
10+years = 6	38		
Business Age		3.16	1.17
0-9 years = 1	0		
10-29 years = 2	34		
30-49 years = 3	38		
50-69 years = 4	13		
70-89 years = 5	9		
90+ year = 6	6		
Business Sector		N/A	N/A
Mining = 1	0		
Construction = 2	11		
Manufacturing = 3	16		
Transportation = 4	6		
Wholesale Distributors = 5	9		
Retail = 6	17		
Services = 7	20		
Finance, insurance, and real estate = 8	3		
Agriculture = 9	4		
Other = 10	15		
Number of Employees		2.35	1.31
0-24 = 1	28		
25-49 = 2	43		

50-74 = 3	9		
75-99 = 4	6		
100+ = 5	13		
Generation of the Business		1.85	0.76
First = 1	48		
Second = 2	50		
Third+ = 3	29		
Business Gross Revenue		2.14	1.30
\$1-4.99 million = 1	46		
\$5-9.99 million = 2	21		
\$10-19.99 million = 3	14		
\$20-49.99 million = 4	12		
\$50-99.99 million = 5	7		
\$100 million+ = 6	1		
Business Book Value		1.56	0.92
\$1-4.99 million = 1	67		
\$5-9.99 million = 2	16		
\$10-19.99 million = 3	12		
\$20-49.99 million = 4	4		
\$50-99.99 million = 5	0		
\$100 million+ = 6	1		
Business Market Value		1.85	1.11
\$1-4.99 million = 1	53		
\$5-9.99 million = 2	25		
\$10-19.99 million = 3	11		
\$20-49.99 million = 4	8		
\$50-99.99 million = 5	3		
\$100 million+ = 6	1		
Growth Strategy		N/A	N/A
Acquisition = 1	10		
Heavy Marketing = 2	23		
Word of Mouth = 3	47		
Other = 4	20		
Benchmarking		0.67	0.49
Yes = 1	33		
No = 0	67		

External Environmental Demographics

As mentioned in Chapter 3, the metropolitan size of the area was divided among the following categories: (a) large city or suburb of (population > 250,000), (b) midsize city or suburb of (25,000-250,000), (c) large town (25,000-250,000) no suburbs, (d) small town (2,500-25,000), and (e) rural (less than 2,500). Based on the sample, 37.8% ($n = 48$) of respondents operated in a large city or suburb, 22.8% ($n = 29$) operated in a midsize city or suburb, 9.4% ($n = 12$) operated in a large town without a suburb, 18.9% ($n = 24$) operated in a small town, and 11% ($n = 14$) operated in a rural area.

The metropolitan economic growth prospects were divided among the following categories: (a) sharp decline, (b) decline, (c) stable, (d) growth, and (e) high growth. Based on the sample, 2.4% ($n = 3$) of respondents operated in an area in sharp decline, 13.5% ($n = 17$) operated in an area of decline, 57.1% ($n = 72$) operated in a stable area, 23.8% ($n = 30$) operated in a growth area, and 3.2% ($n = 4$) operated in a high growth area.

Respondents were asked the extent that an uncertain tax environment impacts their succession planning based on the following statement, “Uncertainty in the current tax environment is a motivation for succession planning.” The impact that the tax environment has on succession planning was measured through the following response categories and coded where: 1 = *Strongly Disagree*, 2 = *Disagree*, 3 = *Neither Agree nor Disagree*, 4 = *Agree*, and 5 = *Strongly Agree*. The average tax environment impact was that respondents neither agreed nor disagreed with the statement, or the category coded 3 ($M = 3.38$, $SD = 1.24$). Based on the sample, 9.5% ($n = 12$) of respondents strongly disagreed, 11.1% ($n = 14$) disagreed, 36.5% ($n = 46$) neither agreed or disagreed, 17.5% ($n = 22$) agreed, and 25.4% ($n = 32$) strongly agreed.

Respondents were asked the extent that industry regulation impacts their succession planning based on the following statement, “I am in a regulated industry that requires a business succession plan.” The regulatory environment impact on succession planning was measured through the following categories and coded where: 1 = *Strongly Disagree*, 2 = *Disagree*, 3 = *Neither Agree nor Disagree*, 4 = *Agree*, and 5 = *Strongly Agree*. The average regulatory environment impact was that respondents disagreed with the statement, or the category coded 2 ($M = 1.86$, $SD = 1.33$). Based on the sample, 64.5% ($n = 80$) of respondents strongly disagreed, 9.7% ($n = 12$) disagreed, 9.7% ($n = 12$) neither agreed or disagreed, 7.3% ($n = 9$) agreed, and 8.9% ($n = 11$) strongly agreed.

Table 4.3 External Environmental Demographics

External environmental characteristics and codes	%	<i>M</i>	<i>SD</i>
Metropolitan Area Population		2.43	1.43
Large City or suburb of (population > 250,000)	38		
Midsize City or suburb of (25,000-250,000)	23		
Large Town (25,000-250,000) no suburbs	8		
Small Town (2,500-25,000)	19		
Rural (less than 2,500)	11		
Metropolitan Growth Prospects		3.12	0.76
Sharp Decline	2		
Decline	14		
Stable	57		
Growth	24		
High Growth	3		
Tax Environment		3.38	1.24
Strongly Disagree	10		
Disagree	11		
Neither Agree or Disagree	37		
Agree	18		
Strongly Disagree	25		
Regulatory Environment		1.86	1.33
Strongly Disagree	65		
Disagree	10		
Neither Agree or Disagree	10		
Agree	7		
Strongly Disagree	9		

Extensiveness of Business Succession Preparedness Scale Analysis

As a result of a Delphi study described in Chapter 3, a new scale was developed to measure the dependent variable. Eight business succession preparedness questions were included in a new scale: (a) is there currently a written ownership succession plan; (b) has a successor been chosen; (c) does the ownership succession plan include a time frame; (d) has the successor been made aware of your decision; (e) is the CEO increasingly delegating tasks that enable

him/her to develop the successor; (f) is the successor ready to step in if unexpectedly required; (g) are family members inside the business aware of the ownership succession plan; and (h) is there an active development plan for the next-generation successor? Consistent with Davis and Harveston (1998), responses to all eight items were scored as either zero or one, based on whether the individual activity was present or not. Responses were summed to create a single measure, ranging from “0” (*low*) to “8” (*high*). The higher the score, the more extensive the succession planning had taken place. This resulted in the dependent variable measure EBSP.

A Principal Component Analysis (PCA) with a varimax rotation was performed in order to establish the construct validity of the new scale. First, all eight of the items correlated at least .30 with at least one other item, suggesting reasonable factorability (Field, 2009). Second, the Kaiser-Meyer-Olkin measure of sampling adequacy was .83, above the recommended value of .6 (Field, 2009). Third, Bartlett’s test of sphericity was significant ($\chi^2 (28) = 501.65, p < .01$) indicating sample variance normality. A scree plot indicated one factor was extracted, which explained 52% of the overall variance. As a result, a new scale was formed and entitled *Extensiveness of Business Succession Preparedness (EBSP)*. Internal reliability of the scale was tested using Cronbach’s coefficient alpha for the scale and indicated high reliability ($\alpha = .87$). As a result of this analysis, the new scale was used as a dependent variable for this study. Table 4.4 shows the variables loading on the extensiveness of business succession preparedness factor and Table 4.5 shows the Extensiveness of Business Succession Preparedness scale characteristics.

Table 4.4 EBSP Factor Loading for One-Factor Principal Component Analysis Solution

	Factor 1 scores
Extensiveness of Business Succession Preparedness ($\alpha=.87$)	
1. A successor has been chosen	.88
2. The successor has been made aware of your decision	.85
3. The successor is ready to step in if unexpectedly required	.76
4. Family members inside the business are aware of the ownership succession plan	.74
5. There is an active development plan for the next generation successor	.68
6. The ownership succession plan includes a time frame	.62
7. There is currently a written ownership succession plan	.60
8. The CEO is increasingly delegating tasks that enable him/her to develop the successor	.58

Table 4.5 EBSP Scale Characteristics

Extensiveness of business succession preparedness characteristics and codes	%	<i>M</i>	<i>SD</i>
A successor has been chosen		.36	.48
Yes = 1	36		
No = 0	64		
The successor has been made aware of your decision		.38	.49
Yes = 1	37		
No = 0	63		
The successor is ready to step in if unexpectedly required		.48	.50
Yes = 1	48		
No = 0	52		
Family members inside the business are aware of the ownership succession plan		.64	.48
Yes = 1	64		
No = 0	36		
There is an active development plan for the next generation successor		.31	.47
Yes = 1	31		
No = 0	69		
The ownership succession plan includes a time frame		.17	.37
Yes = 1	17		
No = 0	83		
There is currently a written ownership succession plan		.19	.39
Yes = 1	19		
No = 0	81		
The CEO is increasingly delegating tasks that enable him/her to develop the successor		.60	.49
Yes = 1	60		
No = 0	40		
Total Scale Score		3.13	2.65

Business Formality Scale Analysis

In order to ascertain whether the business formality measures identified by Davis and Harveston (1998) and Westhead (2003), and additional items added have construct validity, a Principal Component Analysis (PCA) with a varimax rotation was performed. There were 14 statements associated with business formality. The first factor analysis resulted in two variables having complex structures (e.g., loading on a second factor at greater than .4), which is shown in Table 4.6. As a result, the following statements were removed: “The business has an up-to-date organizational chart” and “the business has an up-to-date buy/sell agreement.” This took the number of statements from 14 down to 12 and the resulting Principal Component Analysis is shown in Table 4.7.

The first factor reflected items associated with corporate strategy. There were eight statements associated with this factor, including: (a) there are up to date written job descriptions; (b) there are fixed compensation plans; (c) there is a formal employee review process; (d) there is a written company mission statement; (e) the business has an up to date employee manual; (f) there is an active development plan for the next generation successor; (g) the business has an up to date strategic plan; and (h) the business has an employee career path. Responses were summed to create a single measure of Corporate Strategy Formality, ranging from “0” (low) to “40” (high). The higher the score, the more extensive corporate strategy formality was in place.

The second factor reflected items associated with the business board. There were four statements associated with this factor, including: (a) the board insists on a business succession plan; (b) there is at least one outside board member; (c) the board meets quarterly; and (d) there is a board (formal or advisory). Responses were summed to create a single measure of Business

Board Formality, ranging from “0” (*low*) to “20” (*high*). The higher the score, the more extensive board formality was in place.

Several steps were taken to ensure the validity and reliability of the scales, including internal reliability being assessed using Cronbach’s Alpha. First, all twelve of the items correlated at least .30 with at least one other item, suggesting reasonable factorability (Field, 2009). Second, the Kaiser-Meyer-Olkin measure of sampling adequacy was .86, above the recommended value of .6 (Field, 2009). Third, Bartlett’s test of sphericity was significant ($\chi^2(66) = 707.97, p < .01$) indicating sample variance normality. A scree plot indicated three factors were extracted, which explained 59% of the overall variance. As a result, two new *business formality scales* were formed and named *Board* and *Corporate Strategy*. Internal reliability of the scales was tested using Cronbach’s coefficient alpha for the scale and indicated high reliability for all scales: Board ($\alpha = .85$), and Corporate Strategic Planning ($\alpha = .87$). As a result of this analysis, the new scales were used as independent variables for this study. Table 4.7 shows the variables loading on the two business formality factors. Table 4.8 shows the Board Scale characteristics and Table 4.9 shows the Corporate Strategic Planning Scale characteristics.

Table 4.6 Business Formality Factor Loading for Three-Factor PCA Solution

	Factor 1 scores	Factor 2 scores	Factor 3 scores
Business formality variables			
1. There are up to date written job descriptions	.80		
2. There are fixed compensation plans	.73		
3. There is a formal employee review process	.69		
4. There is a written company mission statement	.64		
5. The business has an up to date employee manual	.57		
6. The board insists on a business succession plan		.80	
7. There is at least one outside board member		.80	
8. Regular quarterly board meetings are held		.77	
9. There is a board (formal or advisory)		.77	
10. The business has an up to date buy/sell agreement		.59	.48
11. There is an active dev plan for the next generation successor			.79
12. The business has an up to date strategic plan			.76
13. The business has an employee career path			.73
14. The business has an up to date organizational chart	.48		.61

Table 4.7 Business Formality Factor Loading for Reduced Two-Factor PCA Solution

	Factor 1 scores	Factor 2 scores
Business formality subscales		
1. There is an active dev plan for the next generation successor	.79	
2. The business has an up to date strategic plan	.78	
3. There is a formal employee review process	.74	
4. There are up to date written job descriptions	.71	
5. There is a written company mission statement	.70	
6. The business has an employee career path	.66	
7. The business has an up to date employee manual	.62	
8. There are fixed compensation plans	.61	
9. The board insists on a business succession plan		.82
10. There is a board (formal or advisory)		.81
11. Regular quarterly board meetings are held		.80
12. There is at least one outside board member		.79

Table 4.8 Business Formality – Board Scale Characteristics

Board characteristics and codes	%	<i>M</i>	<i>SD</i>
The board insists on a business succession plan		1.97	1.37
Strongly Disagree = 1	59		
Disagree = 2	11		
Neither Agree nor Disagree = 3	11		
Agree = 4	9		
Strongly Agree = 5	10		
There is at least one outside board member		1.64	1.29
Strongly Disagree = 1	74		
Disagree = 2	7		
Neither Agree nor Disagree = 3	4		
Agree = 4	4		
Strongly Agree = 5	10		
Regular quarterly board meetings are held		2.03	1.31
Strongly Disagree = 1	50		
Disagree = 2	18		
Neither Agree nor Disagree = 3	15		
Agree = 4	6		
Strongly Agree = 5	10		
There is a board (formal or advisory)		2.33	1.46
Strongly Disagree = 1	44		
Disagree = 2	16		
Neither Agree nor Disagree = 3	15		
Agree = 4	10		
Strongly Agree = 5	15		
Total scale score		7.97	5.43

Table 4.9 Business Formality – Corporate Strategy Scale Characteristics

Corporate strategy characteristics and codes	%	<i>M</i>	<i>SD</i>
There are up to date written job descriptions		3.10	1.25
Strongly Disagree = 1	13		
Disagree = 2	17		
Neither Agree nor Disagree = 3	33		
Agree = 4	20		
Strongly Agree = 5	17		
There are fixed compensation plans		3.00	1.28
Strongly Disagree = 1	15		
Disagree = 2	20		
Neither Agree nor Disagree = 3	30		
Agree = 4	17		
Strongly Agree = 5	18		
There is a formal employee review process		2.98	1.34
Strongly Disagree = 1	20		
Disagree = 2	17		
Neither Agree nor Disagree = 3	25		
Agree = 4	23		
Strongly Agree = 5	15		
There is a written company mission statement		3.13	1.63
Strongly Disagree = 1	29		
Disagree = 2	9		
Neither Agree nor Disagree = 3	12		
Agree = 4	19		
Strongly Agree = 5	31		
The business has an up to date employee manual		3.63	1.40
Strongly Disagree = 1	13		
Disagree = 2	10		
Neither Agree nor Disagree = 3	13		
Agree = 4	27		
Strongly Agree = 5	36		
There is an active development plan for the next generation successor		2.73	1.17
Strongly Disagree = 1	23		

Disagree = 2	12		
Neither Agree nor Disagree = 3	39		
Agree = 4	20		
Strongly Agree = 5	6		
The business has an up to date strategic plan		2.89	1.36
Strongly Disagree = 1	24		
Disagree = 2	13		
Neither Agree nor Disagree = 3	24		
Agree = 4	26		
Strongly Agree = 5	13		
The business has an employee career path		2.59	1.18
Strongly Disagree = 1	25		
Disagree = 2	18		
Neither Agree nor Disagree = 3	33		
Agree = 4	18		
Strongly Agree = 5	5		
Total scale score		24.05	10.61

Corporate Performance Scale – Previously Validated

Respondents were asked their satisfaction with corporate performance based on a summated Corporate Performance Scale (Naman & Slevin, 1993). Scores were calculated by adding the raw scores from seven variables using a five-point Likert-type scale ranging from 1 = *Highly Dissatisfied* to 5 = *Highly Satisfied*. The following were the measures utilized: (a) sales revenue level; (b) sales revenue growth rate; (c) cash flow; (d) return on shareholder equity; (e) gross profit margin; (f) net profits from operations; and (g) EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization). Because EBITDA is a universal measure at the core of business value that allows performance comparison between businesses and industries, it was added to the scale. Responses were summed to create a single measure of corporate performance,

ranging from “0” (low) to “35” (high). The higher the score, the higher level of corporate performance satisfaction was achieved.

Due to the addition of EBITDA in the previously used scale, a Principal Component Analysis (PCA) with a varimax rotation was performed in order to establish the construct validity of the adjusted scale. First, all seven of the items correlated at least .3 with at least one other item, suggesting reasonable factorability. Second, the Kaiser-Meyer-Olkin measure of sampling adequacy was .85, above the recommended value of .6. Third, Bartlett’s test of sphericity was significant ($\chi^2(21) = 790.43, p < .01$) indicating sample variance normality. A scree plot indicated one factor was extracted, which explained 69% of the overall variance, a higher result than the original scale. As a result, the addition of EBITDA enhanced the scale. Internal reliability of the scale was tested using Cronbach’s coefficient alpha for the scale and indicated high reliability ($\alpha = .92$). Table 4.10 shows the variables loading on the extent of the corporate performance factor.

Table 4.11 shows the Corporate Performance Scale characteristics for Naman and Slevin’s, (1993). Total scores for the scale ranged from 7 to 35. Respondents were most satisfied with overall sales revenue, indicating that they may see places in their business that could increase profit without necessarily increasing revenue. Overall, satisfaction with corporate performance fell in a narrow range and on average leaned toward satisfied ($M = 22.86, SD = 6.19$).

Table 4.10 Corporate Performance Satisfaction Factor Loading for One-Factor PCA**Solution**

	Factor 1 scores
Corporate performance ($\alpha=.92$)	
1. Net profit from operations	.90
2. EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization)	.90
3. Cash Flow	.82
4. Return on Shareholder Equity	.82
5. Gross Profit Margin	.81
6. Sales Revenue Growth Rate	.80
7. Sales Revenue Level	.76

Table 4.11 Corporate Performance Satisfaction Scale Characteristics

Corporate performance characteristics and codes	%	<i>M</i>	<i>SD</i>
Sales revenue level		3.39	.99
Completely dissatisfied = 1	4		
Somewhat dissatisfied = 2	13		
Neither satisfied nor dissatisfied = 3	38		
Somewhat satisfied = 4	33		
Completely satisfied = 5	13		
Sales revenue growth rate		3.27	1.08
Completely dissatisfied = 1	6		
Somewhat dissatisfied = 2	16		
Neither satisfied nor dissatisfied = 3	38		
Somewhat satisfied = 4	25		
Completely satisfied = 5	15		
Cash flow		3.46	1.03
Completely dissatisfied = 1	4		
Somewhat dissatisfied = 2	12		
Neither satisfied nor dissatisfied = 3	35		
Somewhat satisfied = 4	32		
Completely satisfied = 5	17		
Return on shareholder equity		3.13	1.19

Completely dissatisfied = 1	12		
Somewhat dissatisfied = 2	16		
Neither satisfied nor dissatisfied = 3	34		
Somewhat satisfied = 4	22		
Completely satisfied = 5	15		
Gross profit margin		3.30	1.02
Completely dissatisfied = 1	5		
Somewhat dissatisfied = 2	15		
Neither satisfied nor dissatisfied = 3	38		
Somewhat satisfied = 4	30		
Completely satisfied = 5	12		
Net profits from operations		3.16	1.10
Completely dissatisfied = 1	7		
Somewhat dissatisfied = 2	21		
Neither satisfied nor dissatisfied = 3	33		
Somewhat satisfied = 4	27		
Completely satisfied = 5	12		
EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortiz)		3.14	1.03
Completely dissatisfied = 1	8		
Somewhat dissatisfied = 2	15		
Neither satisfied nor dissatisfied = 3	40		
Somewhat satisfied = 4	28		
Completely satisfied = 5	9		
Total scale score		22.86	6.19

Economic Turbulence Scale – Previously Validated

Respondents were asked the extent of external economic turbulence using a summated Environmental Turbulence Scale (Westhead, 2003), calculated by adding the raw scores from eight environmental variables based on the following five-point Likert-type scale: 1 = *Strongly Disagree* to 5 = *Strongly Agree*. The following were the questions utilized: (a) the rate of product/service obsolescence in our principal industry is very high; (b) actions of competitors are

unpredictable; (c) our business unit must frequently change its marketing practices (e.g., semi-annually); (d) demand and consumer tastes are almost unpredictable; (e) the modes of production/service technology change often and in major ways; (f) very risky, a false step can lead to the business's undoing; (g) a dominating environment in which my business's initiatives count for very little against the tremendous competitive, political or technological forces; and (h) very stressful, exacting, hostile, very hard to keep afloat. The first five questions were used by Westhead (2003), but derived from Miller and Friesen (1982). Questions 6-8 were also used by Westhead (2003), but were derived from Khandwalla (1977). Responses were summed to create a single measure of External Turbulence, ranging from 0 = (*low*) to 40 = (*high*). The higher the score, the higher level of external turbulence is being experienced by the business. Internal reliability of the scale was tested using Cronbach's coefficient alpha and indicated high reliability ($\alpha = .79$).

Descriptive statistics for Westhead's (2003) Economic Turbulence Scale are provided in Table 4.12. Total scores for the scale ranged from 8 to 37. Overall, respondents did not feel excessive economic turbulence affected their business ($M = 21.78$, $SD = 6.01$). However, it is noted that the answers would likely change over time based on different regional and national economic cycles, changes in customer preferences, and other factors affecting competitive advantage.

Table 4.12 Economic Turbulence Scale Characteristics

Economic turbulence characteristics and codes	%	<i>M</i>	<i>SD</i>
The rate of product/service obsolescence in our principal industry is very high		2.57	1.10
Strongly Disagree = 1	19		
Disagree = 2	28		
Neither Agree nor Disagree = 3	35		
Agree = 4	11		
Strongly Agree = 5	7		
Actions of competitors are unpredictable		3.32	1.21
Strongly Disagree = 1	9		
Disagree = 2	16		
Neither Agree nor Disagree = 3	27		
Agree = 4	30		
Strongly Agree = 5	18		
Our business unit must frequently change its marketing practices (e.g., semi-annually)		2.35	1.14
Strongly Disagree = 1	28		
Disagree = 2	31		
Neither Agree nor Disagree = 3	22		
Agree = 4	16		
Strongly Agree = 5	3		
Demand and consumer tastes are almost unpredictable		2.53	1.11
Strongly Disagree = 1	20		
Disagree = 2	29		
Neither Agree nor Disagree = 3	33		
Agree = 4	12		
Strongly Agree = 5	6		
The modes of production/service technology change often and in major ways		2.67	1.16
Strongly Disagree = 1	19		
Disagree = 2	26		
Neither Agree nor Disagree = 3	31		
Agree = 4	17		
Strongly Agree = 5	7		

A very risky or false step can lead to the business's undoing	3.09	1.33
Strongly Disagree = 1	16	
Disagree = 2	20	
Neither Agree nor Disagree = 3	21	
Agree = 4	26	
Strongly Agree = 5	17	
We are in a dominating environment in which my business's initiatives count for very little against the tremendous competitive, political, or technological forces	2.76	1.18
Strongly Disagree = 1	18	
Disagree = 2	22	
Neither Agree nor Disagree = 3	36	
Agree = 4	13	
Strongly Agree = 5	11	
It is very stressful, exacting, hostile; and hard to keep afloat	2.50	1.26
Strongly Disagree = 1	27	
Disagree = 2	27	
Neither Agree nor Disagree = 3	24	
Agree = 4	12	
Strongly Agree = 5	9	
Total scale score	21.78	6.01

F-PEC Scale – Previously Validated

In order to ascertain the level of family influence, the Family Power, Experience, and Culture (F-PEC) scale developed by Astrachan, Klein, and Smyrnios, (2002) and validated by Klein et al. (2005) was utilized. Three subscales were each summed separately, including power (3 variables), experience (3 variables), and culture (12 variables). Internal reliability of each existing scale was assessed using Cronbach's alpha.

The first factor or subscale was intended to reflect the extent of power, family influence on the governance board, and family influence on the management board. However, due to a low

response rate ($N = 29$) on questions surrounding governance and management board participation, which may have resulted from confusion, the only factor represented was ownership percentage ($N = 128$), a question that had a good response rate. The low response rate for other power questions may also have indicated that many businesses do not utilize boards.

The second factor or subscale reflects items associated with family business experience. Respondents were asked: (a) the generation of the business; (b) which generation manages the business; and (c) what generation is active on the governance board. They were provided choices of 1 = *1st generation*, 2 = *2nd generation*, or 3 = *3rd generation+*. Responses were summed to create a single measure of experience, ranging from 1 = (*low*) to 9 = (*high*). The higher the score, the higher the level of family experience in the business. Cronbach's coefficient alpha for the experience subscale indicated high reliability ($\alpha = .73$).

The third factor or subscale reflects items associated with family business culture through a series of statements in which respondents were asked the extent they agree based on the following five-point Likert-type scale ranging from 1 = *Strongly Disagree* to 5 = *Strongly Agree*. Statements included: (a) your family has influence on your business; (b) your family members share similar values; (c) your family and business share similar values; (d) family members support the family business in discussions with friends, employees, and other family members; (e) family members feel loyalty to the family business; (f) family members are proud to tell others that we are part of the family business; (g) there is so much to be gained by participating with the family business on a long-term basis; (h) family members agree with the family business goals, plans, and policies; (i) family members really care about the fate of the family business; (j) deciding to be involved with the family business has a positive influence on my life; (k) I understand and support my family's decision regarding the future of the family business;

and (l) family members are willing to put in a great deal of effort beyond that normally expected to help the family business be successful. Responses were summed to create a single measure of culture, ranging from 12 = (*low*) to 60 = (*high*). The higher the score, the higher level of family experience in the business. Cronbach's coefficient alpha for the culture subscale also indicated high reliability ($\alpha = .88$).

Descriptive statistics the F-PEC scale are provided in Table 4.xx. Total scores for the power subscale ranged from 3 to 5, with a high rate of family ownership of the business enterprise ($M = 4.86, SD = .47$). Therefore, the family businesses surveyed were assumed to have sufficient power and the focus became their experience and culture. Total scores for the experience subscale ranged from 2 to 9, with a significant number of second and third generation businesses owning and managing business enterprises ($M = 3.77, SD = 1.95$). Total scores for the culture subscale ranged from 33 to 60, with respondents indicating the family culture is very intertwined into the business enterprise and is a great source of family pride ($M = 52.65, SD = 6.79$).

Table 4.13 F-PEC Family Influence Part 1 – Power

Family influence - power characteristics and codes	%	<i>M</i>	<i>SD</i>
Please indicate the proportion of share ownership (of core business operation) held by related family members (by adoption, marriage, or blood)		4.86	.47
Less than 20% = 1	0		
20-39% = 2	0		
40-59% = 3	4		
60-79% = 4	5		
80-100% = 5	91		

Table 4.14 F-PEC Family Influence Part 2 – Experience

Family influence - experience characteristics and codes	%	<i>M</i>	<i>SD</i>
Which generation primarily owns the business?		1.50	.710
First Generation = 1	62		
Second Generation = 2	27		
Third Generation+ = 3	10		
Which generation manages the business?		1.57	.710
First Generation = 1	53		
Second Generation = 2	34		
Third Generation+ = 3	12		
What generation is active on the governance board?		.711	.973
First Generation = 1	60		
Second Generation = 2	34		
Third Generation+ = 3	6		
Total scale score		3.77	1.945

Table 4.15 F-PEC Family Influence Part 3 – Culture

Family influence - culture characteristics and codes	%	<i>M</i>	<i>SD</i>
1. Your family has influence on the business		4.03	1.24
Strongly Disagree = 1	7		
Disagree = 2	6		
Neither Agree nor Disagree = 3	16		
Agree = 4	20		
Strongly Agree = 5	51		
2. Your family members share similar values		4.25	.950
Strongly Disagree = 1	1		
Disagree = 2	6		
Neither Agree nor Disagree = 3	14		
Agree = 4	27		
Strongly Agree = 5	52		
3. Your family and business share similar values		4.35	.810
Strongly Disagree = 1	0		

Disagree = 2	3		
Neither Agree nor Disagree = 3	12		
Agree = 4	32		
Strongly Agree = 5	52		
4. Family members support the family business in discussions with friends, employees, and other family members		4.41	.836
Strongly Disagree = 1	1		
Disagree = 2	1		
Neither Agree nor Disagree = 3	16		
Agree = 4	22		
Strongly Agree = 5	60		
5. Family members feel loyalty to the family business		4.61	.666
Strongly Disagree = 1	0		
Disagree = 2	1		
Neither Agree nor Disagree = 3	8		
Agree = 4	21		
Strongly Agree = 5	69		
6. Family members are proud to tell others that we are part of the family business		4.63	.660
Strongly Disagree = 1	0		
Disagree = 2	1		
Neither Agree nor Disagree = 3	8		
Agree = 4	18		
Strongly Agree = 5	72		
7. There is so much to be gained by participating with the family business on a long-term basis		4.36	.790
Strongly Disagree = 1	0		
Disagree = 2	2		
Neither Agree nor Disagree = 3	15		
Agree = 4	29		
Strongly Agree = 5	54		
8. Family members agree with the family business goals, plans, and policies		4.13	.942
Strongly Disagree = 1	1		
Disagree = 2	6		

Neither Agree nor Disagree = 3	17		
Agree = 4	32		
Strongly Agree = 5	44		
9. Family members really care about the fate of the family business		4.52	.820
Strongly Disagree = 1	1		
Disagree = 2	2		
Neither Agree nor Disagree = 3	12		
Agree = 4	16		
Strongly Agree = 5	68		
10. Deciding to be involved with the family business has a positive influence on my life		4.60	.699
Strongly Disagree = 1	0		
Disagree = 2	2		
Neither Agree nor Disagree = 3	6		
Agree = 4	21		
Strongly Agree = 5	69		
11. I understand and support my family's decision regarding the future of the family business		4.50	.797
Strongly Disagree = 1	1		
Disagree = 2	3		
Neither Agree nor Disagree = 3	6		
Agree = 4	26		
Strongly Agree = 5	64		
12. Family members are willing to put in a great deal of effort beyond that normally expected to help the family business be successful		4.26	.989
Strongly Disagree = 1	1		
Disagree = 2	6		
Neither Agree nor Disagree = 3	16		
Agree = 4	19		
Strongly Agree = 5	57		
Total scale score		52.653	6.793

Analysis of Hypotheses

The following steps were taken to assess the hypotheses. First, as previously reported a Principle Component Analysis (PCA) was conducted to confirm the construct validity of the Extensiveness of Business Succession Preparedness (EBSP) scale created through a Delphi study. Factors were then assessed for their levels of internal reliability and as a result, EBSP was used as a dependent variable. Second, a Pearson Product-Moment correlation and coefficients of determination were used to evaluate all hypotheses in groups one through six to determine the strength and direction of the relationship between variables. Third, an ordinary least square regression was utilized to determine variance explained by each individual variable in the model and which variables contributed the most to each group. Groups of variables included: owner characteristics, organizational characteristics, business formality, family influence, access to resources, and external environmental conditions, each impacting the extensiveness of business succession preparedness. Preliminary analyses were performed to ensure no violation of the assumptions of normality, linearity, and homoscedasticity. In addition, multicollinearity diagnostics did not indicate any issues with multicollinearity. Fourth, variables were mean centered. Fifth, a Principal Component Analysis (PCA) was used to identify the number of factors within each group and derive an Anderson Rubin factor score for each factor to serve as latent variables. Sixth, a hierarchical regression was run using Anderson Rubin factor scores identified within each group of variables, to determine whether the interaction variable, generation of the business, moderated each group, as measured by increased R^2 (i.e., amount of variability explained by the model). Finally, another hierarchical regression was run, using all Anderson Rubin factor scores identified, to determine whether the interaction variable, generation of the business, moderated the entire family business succession model, as measured

by increased R^2 . In order to minimize the effect of skewness in the distribution of the business size, the natural log of size was utilized when the distribution was positively skewed. A description of how these methods were used to operationalize the data is provided in the following sections.

Group 1 Hypotheses: Owner Characteristics

The following table represents a summary of the correlations analyzed in each of the individual regressions done for owner characteristic variables.

Table 4.16 Pearson Product-Moment Correlations between Measures of EBSP and Owner Characteristics

Variables	1	2	3	4	5	6	7	8	9	10
(1) EBSP										
(2) OwnerAge	.18*									
(3) OwnerEducation	.11	.03								
(4) OwnerMaritalStatus	.08	-.19*	-.07							
(5) OwnerHHIncTOT	.26**	.27**	.11	-.11						
(6) OwnerHHIncBUS	.07	-.15	.01	.16	.04					
(7) OwnerNWBUS	.04	-.05	.05	.05	-.17	.40**				
(8) MultigenWealthIntent	.38**	.23*	.02	.12	.13	.00	.16			
(9) BusinFamIntent	.31**	.14	.07	.07	.06	-.01	-.08	.55**		
(10) OwnerPartLeader	.10	.00	.09	.07	.07	-.06	-.10	.03	.01	

Note. * $p < .05$ ** $p < .01$

Hypothesis 1.1: When the owner is older, the extensiveness of business succession preparedness will increase.

The relationship between the age of the primary owner and the extensiveness of business succession preparedness (as measured by the EBSP Scale) was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine the extent that the business owner's age was associated with the extensiveness of business succession preparedness. It was determined that there was a weak positive correlation between the two variables (see Table 4.16). The simple regression model ($R^2 = .032$, $F(1, 126) = 4.22$, $p < .05$) indicated that business owner's age is significant and was associated with the extensiveness of business succession preparedness. The age of the business owner explained approximately 3.2% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.17 Association between EBSP and Business Owner Age

	r	p	R ²
Business Owner Age	.18*	.04	.03

Note. * $p < .05$ ** $p < .01$

Hypothesis 1.2: When the owner has a higher level of education, the extensiveness of business succession preparedness will increase.

The relationship between the education level of the primary owner and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine the extent that the business owner's education level was associated with the extensiveness of their business succession preparedness. It was determined that there was a weak positive correlation between the two variables (see table 4.16). The simple regression model ($R^2 = .01$, $F(1, 126) = 1.65$, $p > .05$) indicated that higher education levels of business owners was not significant and was not

associated with the extensiveness of business succession preparedness. The education of the business owner explained approximately 1.3% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.18 Association between EBSP and Business Owner Education Level

	r	p	R ²
Owner Education Level	.11	.20	.01

Note. * $p < .05$ ** $p < .01$

Hypothesis 1.3: When the owner is married, the extensiveness of business succession planning will increase.

The relationship between the marital status of the primary owner and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine the extent that the business owner's marital status was associated with the extensiveness of their business succession preparedness. It was determined that there was a very slight positive correlation between the two variables (see Table 4.16). The simple regression model ($R^2 = .01$, $F(1, 126) = 1.23$, $p > .05$) indicated that business owner's marital status was not significant and was not associated with the extensiveness of business succession preparedness. The marital status of the business owner explained approximately 1% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.19 Association between EBSP and Business Owner Marital Status

	r	p	R ²
Owner Marital Status	.10	.27	.01

Note. * $p < .05$ ** $p < .01$

Hypothesis 1.4: When the owner has higher household income, the extensiveness of business succession preparedness will increase.

The relationship between the primary owner’s household income and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine the extent that the business owner’s level of household income was associated with the extensiveness business succession preparedness. It was determined that there was a weak positive correlation between the two variables (see Table 4.16). The simple regression model ($R^2 = .07$ $F(1, 126) = 8.85$, $p < .05$) indicated that the business owner’s household income level was significant and was associated with the extensiveness of business succession preparedness. The household income of the business owner explained approximately 6.6% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.20 Association between EBSP and Business Owner’s Household Income

	r	p	R ²
Owner’s Household Income	.26**	.00	.07

Note. * $p < .05$ ** $p < .01$

Hypothesis 1.5: When the owner has a higher proportion of household income from the business, the extensiveness of business succession preparedness will increase.

The relationship between the primary owner’s proportion of household income from the business and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine the extent that the business owner’s level of household income from the business was associated with the extensiveness of business succession preparedness. It was determined that

there was a weak positive correlation between the two variables (see Table 4.16). The simple regression model ($R^2 = .00$ $F(1, 126) = .64$, $p > .05$) indicated that business owners having a higher proportion of household income from the business was not significant and was not associated with the extensiveness of business succession preparedness. The proportion of household income from the business explained approximately 0.5% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.21 Association between EBSP and the Business Owner’s Proportion of Household Income from the Business

	r	p	R ²
Owner’s Proportion of Household Income	.07	.43	.00

Note. * $p < .05$ ** $p < .01$

Hypothesis 1.6: When the owner has more net worth in the business as a percentage of total net worth, the extensiveness of business succession preparedness will increase.

The relationship between the primary owner’s proportion of net worth in the business and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine the extent that the business owner’s proportion of net worth from the business was associated with the extensiveness of business succession preparedness (see Table 4.16). It was determined that there was virtually a nonexistent correlation between the two variables. The simple regression model ($R^2 = .00$ $F(1, 126) = .21$, $p > .05$) indicated that business owners having a higher proportion of net worth in the business was not significant and was not associated with the extensiveness of business succession preparedness. The proportion of net worth in the business

explained approximately 0.2% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.22 Association between EBSP and Business Owner’s Proportion of Net Worth in the Business

	r	p	R ²
Owner’s Proportion of Net Worth	.04	.65	.00

Note. * $p < .05$ ** $p < .01$

Hypothesis 1.7: When the owner has intent to continue operating as a family economic unit multigenerationally, the extensiveness of business succession preparedness will increase.

The relationship between the primary owner’s intent to continue operating as an economic unit intergenerationally as a family and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine the extent that owner’s intent to continue operating as an economic unit intergenerationally as a family was associated with the extensiveness of business succession preparedness. It was determined that there was a moderate positive correlation between the two variables (see Table 4.16). The simple regression model ($R^2 = .14$ $F(1, 126) = 20.73$, $p < .05$) indicated that business owner’s intent to continue operating as an economic unit intergenerationally as a family was significant and was associated with the extensiveness of business succession preparedness. The owner’s intent to continue operating as an economic unit intergenerationally as a family explained approximately 14.1% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.23 Association between EBSP and the Owner’s Intent to Continue Operating as an Economic Unit Intergenerationally as a Family

	r	p	R ²
Owner’s Intent to Continue Operating as an Economic Unit Intergenerationally as a family	3.76**	.00	.14

Note. * $p < .05$ ** $p < .01$

Hypothesis 1.8: When the owner has intent to keep the business in the family, the extensiveness of business succession preparedness will increase.

The relationship between the primary owner’s intent to keep the business in the family and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine the extent that owner’s intent to keep the business in the family was associated with the extensiveness of business succession preparedness. It was determined that there was a moderate positive correlation between the two variables (see Table 4.16). The simple regression model ($R^2 = .22$ $F(1, 126) = 36.27$, $p < .05$) indicated that business owner’s intent to keep the business in the family was significant and was associated with the extensiveness of business succession preparedness. The owner’s intent to keep the business in the family explained approximately 22.4% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.24 Association between EBSP and the Owner’s Intent to Keep the Business in the Family

	r	p	R ²
Owner’s Intent to Keep the Business in the Family	.47**	.00	.22

Note. * $p < .05$ ** $p < .01$

Hypothesis 1.9: When the owner has a participative leadership style, the extensiveness of business succession preparedness will increase.

The relationship between the primary owner’s participative leadership style and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine the extent that owner’s participative leadership style was associated with the extensiveness of business succession preparedness. It was determined that there was a slight positive correlation between the two variables (see Table 4.16). The simple regression model ($R^2 = .01$ $F(1, 126) = 1.32$, $p > .05$) indicated that business owner’s participative leadership style was not significant and was not associated with the extensiveness of business succession preparedness. The owner’s participative leadership style explained approximately 1% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.25 Association between EBSP and the Owner’s Participative Leadership Style

	r	p	R ²
Owner’s Participative Leadership Style	.10	.25	.01

Note. * $p < .05$ ** $p < .01$

Hypothesis 1.10: The relationship between ownership characteristics and the extensiveness of business succession preparedness will be moderated by the generation of the business.

A Principle Component Analysis (PCA) with a varimax rotation was conducted to determine the number of factors, or latent variables, within owner characteristics and derive Anderson Rubin scores to represent each factor of ownership characteristics. This model was then moderated by the business generation (1st, 2nd, or 3rd+) to determine whether it was improved by the inclusion of the generation of the business (generational effect). In order to

determine the generational effect on the model, interaction variables and the moderating variable were transformed using mean centering.

Table 4.26 Owner Characteristics Factor Loading for Four-Factor PCA Solution

	Factor 1 scores	Factor 2 scores	Factor 3 scores	Factor 4 scores
Owner characteristics				
1. Intent intergenerational family wealth management	.76			
2. Intent to keep the business entity in the family	-.72			
3. Primary owner age	.58			
4. Household Income	.43			
5. Proportion of net worth in business		.83		
6. Proportion of household income from business		.77		
7. Marital Status			-.74	
8. Education			.69	
9. Participative leadership style				.88

As a result of the Principal Component Analysis (PCA), four factors were derived and named *intent* (factor 1), *business income* (factor 2), *demographics* (factor 3), and *leadership* (factor 4). A four-factor solution explained approximately 60.9% of the total variance.

To test for moderation among ownership characteristics, a hierarchical regression was performed. In the first step, four Anderson Rubin factors, intent, business income, demographics, and leadership, were included, along with business generation. Multicollinearity diagnostics were assessed and were within an acceptable range (i.e., tolerance ranges of .81 to .97 and variance inflation factors (VIF) of less than two). The hierarchical regression model was significant ($R^2 = .33$ $F(5, 122) = 12.12$, $p < .01$). In the second step, Anderson Rubin factors multiplied by business generation were entered into the next block in order to test for a generation moderating effect. The model then changed to ($R^2 = .38$ $F(9, 118) = 8.04$, $p < .01$) and was still significant. Including the business generation in the model improved the explanation of the variance based on the R^2 by 4.8%. This means that the impact of ownership characteristics on

the extensiveness of business succession preparedness was significant and explained approximately 33.2% of the variance in the model. However, consistent with the hypothesis, this increased to 38% when moderated by the generation of the business, suggesting that ownership characteristics were positively moderated by generation when associated with the extensiveness of succession planning. As a result, the hypothesis was confirmed.

Table 4.27 Summary of Hierarchical Regression Analysis for Owner Characteristics Anderson Rubin Factors Association with EBSP

Variable	ΔR^2	<i>B</i>	<i>SE B</i>	<i>B</i>
Step 1	.30***			
Constant		3.12	.20	
Intent		1.30	.20	.49***
Business income		.21	.20	.08
Demographics		-.03	.20	-.01
Leadership		.45	.20	.17*
Business generation		.58	.26	.17*
Step 2	.05***			
Constant		3.12	.20	
Intent		1.33	.20	-.50***
Business income		.20	.20	.07
Demographics		-.05	.19	-.02
Leadership		.24	.21	.09
Business generation		.62	.26	.18*
Intent x Business generation		.18	.26	.05
Business income x Business generation		.22	.25	.07
Demographics x Business generation		-.02	.27	-.01
Leadership x Business generation		.69	.25	.22***

* $p < .05$. ** $p < .01$. *** $p < .00$.

Although business income, demographics, and leadership were not significant associations in the final model, intent ($b = 1.39$, $t(118) = 6.60$, $p < .00$) was a significant association of extensiveness of business succession, moderated by business generation. In addition, the moderating leadership variable (leadership X business generation) significantly contributed to the model ($b = .69$, $t(118) = 2.78$, $p < .01$.)

Group 2 Hypotheses: Enterprise Characteristics

The following table represents a summary of the correlations analyzed in each of the individual regressions done for enterprise characteristic variables.

Table 4.28 Pearson-Moment Correlations between Measures of EBSP and Enterprise Characteristics

Variables	1	2	3	4	5	6	7	8	9	10	11
(1) EBSP											
(2) CEOTenure	-.035										
(3) CEOYearstoRetire	-.16	-.20*									
(4) BusinessAge	.15	-.02	-.13								
(5) Number Employees	.17*	-.16	.00	.04							
(6) BusinessSize	.19*	-.08	.01	.08	.60**						
(7) BusGrossRevenue	.19*	-.04	.03	-.01	.64**	.88**					
(8) BusLifeCycle	-.06	.06	-.04	.11	-.16	-.15*	-.13				
(9) BusBookValue	.10	-.12	.06	.08	.42**	.88**	.63**	-.09			
(10) BusMarketValue	.19*	-.07	-.00	.16	.49**	.90**	.65**	-.13	.78**		
(11) Corporate Performance	.31**	-.23**	-.01	.04	.18*	.15	.12	-.36**	.14	.13	

Note. * $p < .05$ ** $p < .01$

Hypothesis 2.1: When family businesses have longer CEO tenure, the extensiveness of business succession preparedness will increase.

The relationship between CEO tenure and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether CEO tenure was associated with the extensiveness of business succession preparedness. It was determined that there was no correlation between the two variables (see Table 4.28). The simple regression model ($R^2 = .00$ $F(1, 126) = .15, p > .05$) indicated CEO tenure was not significant and was not associated with the extensiveness of business succession preparedness. CEO tenure explained approximately .1% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.29 Association between EBSP and CEP Tenure

	r	p	R ²
CEO Tenure	.04	.70	.00

Note. * $p < .05$ ** $p < .01$

Hypothesis 2.2: When family businesses have shorter anticipated CEO tenures, the extensiveness of business succession preparedness will increase.

The relationship between the anticipated CEO tenure and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine the anticipated CEO tenure was associated with the extensiveness of business succession preparedness. Correlation analysis determined that a slightly negative correlation between the two variables existed, indicating that the more years left until anticipated succession, the less succession planning took place (see

Table 4.28). The simple regression model was ($R^2 = .024$ $F(1, 126) = 3.12$, $p > .05$). Although significance was not found at the .05 level, borderline significance is noted ($p = .08$). This indicated that anticipated CEO tenure may be associated with the extensiveness of business succession preparedness, unlike CEO tenure. Anticipated CEO tenure explained approximately 2.4% of the variance for the extensiveness of business succession preparedness. The hypothesis was rejected.

Table 4.30 Association between EBSP and Anticipated CEO Tenure

	r	p	R ²
Anticipated CEO Tenure	.16	.08	.02

Note. * $p < .05$ ** $p < .01$

Hypothesis 2.3: When family businesses are older, the extensiveness of business succession preparedness will increase.

The relationship between the age of the family business and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether the age of the family business was associated with the extensiveness of business succession preparedness. It was determined that there was a slight positive correlation between the two variables (see Table 4.28). The simple regression model ($R^2 = .02$ $F(1, 126) = 2.72$, $p > .05$) indicated that the age of the family business was not significant and was not associated with the extensiveness of business succession preparedness. The age of the family business explained approximately 2.1% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.31 Association between EBSP and the Age of the Family Business

	r	p	R ²
Age of the Family Business	.15	.10	.02

Note. * $p < .05$ ** $p < .01$

Hypothesis 2.4: When family businesses have more employees, the extensiveness of business succession preparedness will increase.

The relationship between the number of employees and the extensiveness of succession planning preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether the number of employees was associated with the extensiveness of business succession preparedness. It was determined that there was a slight positive correlation between the two variables (see Table 4.28). The simple regression model ($R^2 = .03$ $F(1, 126) = 3.93$, $p < .05$) indicated that the number of employees was significant and was associated with the extensiveness of business succession preparedness. The number of employees explained approximately 3% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.32 Association between EBSP and the Number of Employees

	r	p	R ²
Number of Employees	.17*	.05	.03

Note. * $p < .05$ ** $p < .01$

Hypothesis 2.5: When family businesses are larger, the extensiveness of business succession preparedness will increase.

The relationship between the size of the family business and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation

coefficient analysis and ordinary least squares regression to determine whether the size of the family business was associated with the extensiveness of business succession preparedness. Business size was represented as the sum of gross revenue, business market value, and business book value. It was determined that there was a moderate positive correlation between the two variables (see Table 4.28). The simple regression model ($R^2 = .05$ $F(1, 126) = 6.32$, $p < .05$) indicated that the size of the family business was significant and was associated with the extensiveness of business succession preparedness. The size of the family business explained approximately 4.8% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.33 Association between EBSP and the Size of the Family Business

	r	p	R ²
Size of the Family Business	.22*	.01	.010

Note. * $p < .05$ ** $p < .01$

Hypothesis 2.6: When family businesses have higher business revenue, the extensiveness of business succession preparedness will increase.

The relationship between higher business revenue of the family business and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether higher business revenue of the family business was associated with the extensiveness of business succession preparedness. It was determined that there was a slight positive correlation between the two variables (see Table 4.28). The simple regression model ($R^2 = .04$ $F(1, 126) = 4.91$, $p < .05$) indicated that higher business revenue of the family business was significant and was associated with the extensiveness of business succession preparedness. Family business

revenue explained approximately 3.8% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.34 Association between EBSP and Higher Business Revenue

	r	p	R ²
Higher Business Revenue	.19*	.03	.04

Note. * $p < .05$ ** $p < .01$

Hypothesis 2.7: When family businesses are in a growth stage, the extensiveness of business succession preparedness will increase.

The relationship between the business life cycle and the extensiveness of succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether the business life cycle of the family business was associated with the extensiveness of business succession preparedness. It was determined that there was no correlation between the two variables (see Table 4.28). The simple regression model ($R^2 = .00$ $F(1, 126) = 1.32$, $p > .05$) indicated that the business life cycle was not significant and was not associated with the extensiveness of business succession preparedness. The business life cycle explained approximately .4% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.35 Association between EBSP and the Business Life Cycle

	r	p	R ²
Business Life Cycle	.06	.49	.00

Note. * $p < .05$ ** $p < .01$

Hypothesis 2.8: When family businesses have higher business book values, the extensiveness of business succession preparedness will increase.

The relationship between higher family business book values and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether higher business book values of family businesses was associated with the extensiveness of business succession preparedness. It was determined that there was no correlation between the two variables (see Table 4.28). The simple regression model ($R^2 = .01$ $F(1, 126) = 1.17$, $p > .05$) indicated that the book value of the family business was not significant and was not associated with the extensiveness of business succession preparedness. The book value of the family business explained approximately .9% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.36 Association between EBSP and the Book Value of the Family Business

	r	p	R ²
Book Value	.10	.28	.01

Note. * $p < .05$ ** $p < .01$

Hypothesis 2.9: When family businesses have larger business market values, the extensiveness of business succession preparedness will increase.

The relationship between higher family business market values and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether higher family business market values were associated with the extensiveness of business succession preparedness. It was determined that there was a slight positive correlation between the two variables (see Table 4.28). The simple regression model ($R^2 = .04$ $F(1, 126) = 4.95$, $p < .05$) indicated that the market value of the family business was significant and was associated with

the extensiveness of business succession preparedness. The market value of the family business explained approximately 3.8% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.37 Association between EBSP and the Market Value of the Family Business

	r	p	R ²
Market Value	.19*	.03	.04

Note. * $p < .05$ ** $p < .01$

Hypothesis 2.10: When family businesses have higher satisfaction with corporate performance, the extensiveness of business succession preparedness will increase.

The relationship between higher satisfaction with corporate performance of family businesses and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether higher satisfaction with corporate performance of family businesses was associated with the extensiveness of business succession preparedness. It was determined that there was a moderate positive correlation between the two variables (see Table 4.28). The simple regression model ($R^2 = .10$ $F(1, 126) = 13.33$ $p < .01$) indicated satisfaction with corporate performance was significant and was associated with the extensiveness of business succession preparedness. Corporate performance of the family business explained approximately 9.5% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.38 Association between EBSP and Satisfaction with Corporate Performance

	r	p	R ²
Satisfaction with Corporate Performance	.31**	.00	.10

Note. * $p < .05$ ** $p < .01$

Hypothesis 2.11: The relationship between enterprise characteristics and the extensiveness of business succession preparedness will be moderated by the generation of the business.

A Principle Component Analysis (PCA) with a varimax rotation was conducted to determine the number of factors within enterprise characteristics and derive respective Anderson Rubin scores to act as latent variables for each factor of enterprise characteristics. This model was then moderated by the business generation (1st, 2nd, or 3^{rd+}) to determine whether it was improved by the inclusion of the generation of the business (generational effect). In order to determine the generation effect on the model, interaction variables and the moderating variable were transformed using mean centering.

Table 4.39 Enterprise Characteristics Factor Loading for Three-Factor PCA Solution

	Factor 1 scores	Factor 2 scores	Factor 3 scores
Enterprise characteristics			
1. Corporate Performance	.77		
2. Business Life Cycle	-.75		
3. Business Size (revenue, book value, and market value)	.54		
4. CEO Tenure		.77	
5. Anticipated CEO Tenure		.76	
6. Business Age			.88

As a result of the Principal Component Analysis (PCA), three factors were derived and named *performance* (factor 1), *CEO tenure* (factor 2), and *business age* (factor 3). A three-factor solution explained approximately 63.9% of the total variance. To test for moderation among enterprise characteristics, a hierarchical regression was performed. In the first step, three Anderson Rubin factors, performance, CEO tenure, and business age, were included, along with business generation. Multicollinearity diagnostics were assessed and were within an acceptable

range (i.e., tolerance ranges of .70 to .99 and variance inflation factors (VIF) of less than two). The model was significant ($R^2 = .18$ $F(4, 122) = 6.47$, $p < .01$). In the second step, Anderson Rubin factors multiplied by business generation were entered into the next block to moderate by generation. Moderated by generation, the model changed to ($R^2 = .19$ $F(7, 119) = 3.89$, $p < .01$) and was significant. Including the business generation in the model improved the explanation of the variance based on the R^2 by 1.1%. This means that the impact of enterprise characteristics on the extensiveness of business succession preparedness explained approximately 17.5% of the variance in the model. However, consistent with the hypothesis, this increased to 18.6% when moderated by the generation of the business, suggesting that the enterprise characteristics are positively moderated by generation when associated with the extensiveness of succession planning. As a result, the hypothesis was confirmed.

Table 4.40 Summary of Hierarchical Regression Analysis for Enterprise Characteristic Anderson Rubin Factors Association with EBSP

Variable	ΔR^2	<i>B</i>	<i>SE B</i>	<i>B</i>
Step 1	.18***			
Constant		3.12	.22	
Performance		.78	.22	.29***
CEO Tenure		-.34	.23	-.13
Business Age		.23	.25	.09
Business generation		.82	.34	.24*
Step 2	.01***			
Constant		3.20	.26	
Performance		.79	.22	.30***
CEO Tenure		-.27	.24	-.10
Business Age		.29	.27	.11
Business generation		.77	.35	.22*
Performance x Business generation		-.25	.29	-.07
CEO Tenure x Business generation		-.25	.29	-.08
Business Age x Business generation		-.10	.31	-.03

* $p < .05$. ** $p < .01$. *** $p < .00$.

CEO tenure and business age were not significant in the final model. However, satisfaction with corporate performance ($b = .79, t(119) = 3.57, p < .00$) was a significant association of extensiveness of business succession, moderated by business generation.

Group 3 Hypotheses: Business Formality

The following table represents a summary of the correlations analyzed in each of the individual regressions done for business formalizing activities.

Table 4.41 Pearson Product-Moment Correlations between EBSP and Business Formalizing Activities

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
(1) EBSP															
(2) JobDescriptions	.22**														
(3) FixedCompensationPlans	.23**	.54**													
(4) FormalEmployeeReview	.22*	.57**	.62**												
(5) Board	.31**	.31**	.35**	.47**											
(6) QuarterlyBoardMtgs	.37**	.33**	.44**	.42**	.64**										
(7) OutsideBoardMember	.19*	.13	.22*	.30**	.57**	.50**									
(8) BoardInsistsonSucePlan	.43**	.27**	.32**	.29**	.61**	.62**	.56**								
(9) MissionStatement	.05	.46**	.44**	.50**	.33**	.23**	.24**	.26**							
(10) StrategicPlan	.19*	.43**	.40**	.46**	.28**	.31**	.19*	.29**	.56**						
(11) OrganizationalChart	.20*	.50**	.37**	.59**	.35**	.29**	.22*	.32**	.59**	.62**					
(12) EmployeeCareerPath	.21*	.29**	.36**	.51**	.31**	.30**	.26**	.26**	.34**	.54**	.43**				
(13) EmployeeManual	.21*	.45**	.30**	.42**	.26**	.22*	.20*	.24**	.49**	.39**	.39**	.31**			
(14) KeyManagementDevPlan	.31*	.47**	.35**	.54**	.31**	.23*	.18*	.23*	.39**	.67**	.56**	.64**	.37**		
(15) Buy/Sell	.30*	.17	.23**	.29**	.38**	.38**	.46**	.45**	.20*	.37**	.37**	.30**	.19*	.31**	

Note. * $p < .05$ ** $p < .01$

Hypothesis 3.1: When family businesses use an established mission statement, the extensiveness of business succession preparedness will increase.

The relationship between using an established mission statement and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether using an established mission statement was associated with the extensiveness of business succession preparedness. It was determined that there was no correlation between the two variables (see Table 4.41). The simple regression model ($R^2 = .00$ $F(1, 126) = .33$ $p > .05$) indicated that using an established mission statement was not significant and was not associated with the extensiveness of business succession preparedness. Using an established mission statement explained approximately .3% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.42 Association between EBSP and Use of a Mission Statement

	r	p	R ²
Use of a Mission Statement	.05	.57	.00

Note. * $p < .05$ ** $p < .01$

Hypothesis 3.2: When family businesses use a written strategic plan, the extensiveness of business succession preparedness will increase.

The relationship between using a written strategic plan and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether using a written strategic plan was associated with the extensiveness of business succession preparedness. It was determined that there was a slight positive correlation between the two variables (see Table 4.41). The

simple regression model ($R^2 = .04$ $F(1, 126) = 4.56$ $p < .05$) indicated that using a written strategic plan was significant and was associated with the extensiveness of business succession preparedness. Using a written strategic plan explained approximately 3.5% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.43 Association between EBSP and Use of a Written Strategic Plan

	r	p	R ²
Use of a Written Strategic Plan	.19*	.04	.04

Note. * $p < .05$ ** $p < .01$

Hypothesis 3.3: When family businesses have a board, the extensiveness of business succession preparedness will increase.

The relationship between businesses having a board and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether having a board was associated with the extensiveness of business succession preparedness. It was determined that there was a moderate positive correlation between the two variables (see Table 4.41). The simple regression model ($R^2 = .095$ $F(1, 126) = 13.21$ $p < .01$) indicated that having a board was significant and was associated with the extensiveness of business succession preparedness. Having a board explained approximately 9.5% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.44 Association between EBSP and Having a Board

	r	p	R ²
Having a Board	.31**	.00	.10

Note. * $p < .05$ ** $p < .01$

Hypothesis 3.4: When family businesses have regular quarterly board meetings, the extensiveness of business succession preparedness will increase.

The relationship between businesses having regular quarterly board meetings and the extensiveness of business succession preparedness was analyzed using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether having regular quarterly board meetings was associated with the extensiveness of business succession preparedness. It was determined that there was a moderate positive correlation between the two variables (see Table 4.41). The simple regression model ($R^2 = .13$ $F(1, 126) = 19.42$ $p < .01$) indicated that having regular quarterly board meetings was significant and was associated with the extensiveness of business succession preparedness. Having regular quarterly board meetings explained approximately 13.4% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.45 Association between EBSP and Having Regular Quarterly Board Meetings

	r	p	R ²
Having Regular Quarterly Board Meetings	.37**	.00	.13

Note. * $p < .05$ ** $p < .01$

Hypothesis 3.5: When family businesses use at least one outside board member, the extensiveness of business succession preparedness will increase.

The relationship between businesses using at least one outside board member and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether using at least one outside board member was associated with the extensiveness of business succession preparedness. It was determined that there was a slight positive correlation between the two variables (see Table 4.41). The simple regression model ($R^2 = .04$ $F(1, 126) = 4.54$ $p < .05$) indicated that using at least one outside board member was significant and was associated with the extensiveness of business succession preparedness. Using at least one outside board member explained approximately 3.5% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.46 Association between EBSP and Using an Outside Board Member

	r	p	R ²
Using at least one Outside Board Member	.19*	.04	.04

Note. * $p < .05$ ** $p < .01$

Hypothesis 3.6: When family businesses have a board that requires a succession plan, the extensiveness of business succession preparedness will increase.

The relationship between businesses having a board that requires a succession plan and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether having a board that requires a succession plan was associated with the extensiveness of business succession preparedness. It was determined that there was a moderate to strong positive correlation between the two variables (see Table 4.41). The simple regression model ($R^2 = .18$ $F(1, 126) = 27.79$ $p < .01$) indicated that having a board that requires a succession plan was

significant and was associated with the extensiveness of business succession preparedness. Having a board that requires a succession plan explained approximately 18.1% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.47 Association between EBSP and Having a Board that Requires a Succession Plan

	r	p	R ²
Having a Board that Requires a Succession Plan	.43**	.00	.18

Note. * $p < .05$ ** $p < .01$

Hypothesis 3.7: When family businesses have an organizational chart, the extensiveness of business succession preparedness will increase.

The relationship between businesses having an organizational chart and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether having an organizational chart was associated with the extensiveness of business succession preparedness. It was determined that there was a slight positive correlation between the two variables (see Table 4.41). The simple regression model ($R^2 = .04$ $F(1, 126) = 5.47$ $p < .05$) indicated that having an organizational chart was significant and was associated with the extensiveness of business succession preparedness. Having an organizational chart explained approximately 4.2% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.48 Association between EBSP and Having an Organizational Chart

	r	p	R ²
Having an Organizational Chart	.20*	.02	.04

Note. * $p < .05$ ** $p < .01$

Hypothesis 3.8: When family businesses have a formal employee compensation plan, the extensiveness of business succession preparedness will increase.

The relationship between businesses having a formal employee compensation plan and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether having a formal employee compensation plan was associated with the extensiveness of business succession preparedness. It was determined that there was a slight positive correlation between the two variables (see Table 4.41). The simple regression model ($R^2 = .05$ $F(1, 126) = 6.86$ $p < .01$) indicated that having a formal employee compensation plan was significant and was associated with the extensiveness of business succession preparedness. Having a formal employee compensation plan explained approximately 5.2% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.49 Association between EBSP and Having a Formal Employee Compensation Plan

	r	p	R ²
Having a Formal Employee Compensation Plan	.23**	.01	.05

Note. * $p < .05$ ** $p < .01$

Hypothesis 3.9: When family businesses have written job descriptions, the extensiveness of business succession preparedness will increase.

The relationship between businesses having written job descriptions and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether having written job descriptions was associated with the extensiveness of business succession preparedness. It was determined that there was a slight positive correlation between the two variables (see Table 4.41). The simple regression model ($R^2 = .05$ $F(1, 126) = 6.18$ $p < .05$) indicated that having written job descriptions was significant and was associated with the extensiveness of business succession preparedness. Having written job descriptions explained approximately 4.7% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.50 Association between EBSP and Having Written Job Descriptions

	r	p	R ²
Extent of Business Succession Preparedness	.22*	.01	.05

Note. * $p < .05$ ** $p < .01$

Hypothesis 3.10: When family businesses have an employee handbook, the extensiveness of business succession preparedness will increase.

The relationship between businesses having an employee manual and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether having an employee manual was associated with the extensiveness of business succession preparedness. It was determined that there was a slight positive correlation between the two variables (see Table 4.41). The simple regression model ($R^2 = .04$ $F(1, 126) = 5.77$ $p < .05$) indicated that having an employee manual was significant and was associated with the extensiveness of business

succession preparedness. Having an employee manual explained approximately 4.4% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.51 Association between EBSP and Having an Employee Manual

	r	p	R ²
Extent of Business Succession Preparedness	.21*	.02	.04

Note. * $p < .05$ ** $p < .01$

Hypothesis 3.11: When family businesses have an employee review process, the extensiveness of business succession preparedness will increase.

The relationship between businesses having an employee review process and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether having an employee review process was associated with the extensiveness of business succession preparedness. It was determined that there was a slight positive correlation between the two variables (see table 4.41). The simple regression model ($R^2 = .05$ $F(1, 126) = 6.39$ $p < .05$) indicated that having an employee review process was significant and was associated with the extensiveness of business succession preparedness. Having an employee review process explained approximately 4.8% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.52 Association between EBSP and Having an Employee Review Process

	r	p	R ²
Having an Employee Review Process	.22*	.01	.05

Note. * $p < .05$ ** $p < .01$

Hypothesis 3.12: When family businesses have an employee career path, the extensiveness of business succession preparedness will increase.

The relationship between businesses having an employee career path and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether having an employee career path was associated with the extensiveness of business succession preparedness. It was determined that there was a moderate positive correlation between the two variables (see table 4.41). The simple regression model ($R^2 = .05$ $F(1, 126) = 6.06$ $p < .05$) indicated that having an employee career path was significant and was associated with the extensiveness of business succession preparedness. Having an employee career path explained approximately 4.6% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.53 Association between EBSP and Having an Employee Career Path

	r	p	R ²
Having an Employee Career Path	.21*	.02	.05

Note. * $p < .05$ ** $p < .01$

Hypothesis 3.13: When family businesses have a key management development plan, the extensiveness of business succession preparedness will increase.

The relationship between businesses having a key management development plan and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether having a key management development plan was associated with the extensiveness of business succession preparedness. It was determined that there was a moderate positive

correlation between the two variables (see Table 4.41). The simple regression model ($R^2 = .09$ $F(1, 126) = 13.00$ $p < .01$) indicated that having a key management development plan was significant and was associated with the extensiveness of business succession preparedness. Having a key management development plan explained approximately 9.4% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.54 Association between EBSP and Having a Key Management Development Plan

	r	p	R ²
Having a Key Management Development Plan	.31**	.00	.09

Note. * $p < .05$ ** $p < .01$

Hypothesis 3.14: When family businesses have an up to date buy/sell agreement, the extensiveness of business succession preparedness will increase.

The relationship between having an up to date buy/sell agreement and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether having an up to date buy/sell agreement was associated with the extensiveness of business succession preparedness. It was determined that there was a moderate positive correlation between the two variables (see Table 4.41). The simple regression model ($R^2 = .09$ $F(1, 126) = 12.52$ $p < .01$) indicated that having an up-to-date buy/sell agreement was significant and was associated with the extensiveness of business succession preparedness. Having an up to date buy/sell agreement explained approximately 9% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.55 Association between EBSP and Having a Buy/Sell Agreement

	r	p	R ²
Having a Buy/Sell Agreement	.30**	.00	.09

Note. * $p < .05$ ** $p < .01$

Hypothesis 3.15: The relationship between business formalizing activities and the extensiveness of business succession preparedness will be moderated by the generation of the business.

A Principle Component Analysis (PCA) with a varimax rotation was conducted to determine the number of factors within business formality and derive respective Anderson Rubin scores to act as latent variables for each factor of access to business formality. This model was then moderated by the business generation (1st, 2nd, or 3rd+) to determine whether it was improved by the inclusion of a generational effect. In order to determine the generational effect on the model, interaction variables and the moderating variable were transformed using mean centering.

Table 4.56 Business Formality Factor Loading for Two-Factor PCA Solution

	Factor 1 scores	Factor 2 scores
Business formality subscales		
1. There is an active dev plan for the next generation successor	.79	
2. The business has an up to date strategic plan	.78	
3. There is a formal employee review process	.74	
4. There are up to date written job descriptions	.71	
5. There is a written company mission statement	.70	
6. The business has an employee career path	.66	
7. The business has an up to date employee manual	.62	
8. There are fixed compensation plans	.61	
9. The board insists on a business succession plan		.82
10. There is a board (formal or advisory)		.81
11. Regular quarterly board meetings are held		.80
12. There is at least one outside board member		.79

As a result of the Principal Component Analysis (PCA), two factors were derived and named *corporate strategy* (factor 1) and *board* (factor 2). A two-factor solution explained approximately 59% of the total variance. Twelve statements were used as a result of the previously shown Principal Component Analysis (PCA) in which two of the fourteen variables had complex structures (e.g., loading on a second factor at greater than .4) and were removed (e.g., see Table 4.6). The statements removed were: “The business has an up-to-date organizational chart” and “the business has an up-to-date buy/sell agreement.” As a result, they are not included in the moderation analysis.

To test moderation for business formality, a hierarchical regression was performed. In the first step, two Anderson Rubin factors, board and corporate strategy were included, along with business generation. Multicollinearity diagnostics were assessed and were within an acceptable range (i.e., tolerance ranges of .92 to .98 and variance inflation factors (VIF) of less than two). The hierarchical regression model was significant ($R^2 = .18$ $F(3, 124) = 9.01, p < .01$). In the second step, Anderson Rubin factors multiplied by business generation were entered into the next block to moderate by generation. Moderated by generation, the model changed to ($R^2 = .19$ $F(5, 122) = 5.78, p < .01$) and was significant, improving the explanation of the variance based on the R^2 by 1.2%. This means that the impact of business formality on the extensiveness of business succession preparedness explained approximately 17.9% of the variance in the model. However, consistent with the hypothesis, business formality increased to 19.1% when moderated by business generation, suggesting that business formality is positively moderated by generation when associated with the extensiveness of succession planning. As a result, the hypothesis was confirmed.

Table 4.57 Summary of Hierarchical Regression Analysis for Business Formality Anderson Rubin Factors Association with EBSP

Variable	ΔR^2	<i>B</i>	<i>SE B</i>	β
Step 1	.18***			
Constant		3.12	.22	
Board		.79	.23	.30***
Corporate Strategy		.48	.22	.18*
Business generation		.60	.30	.17*
Step 2	.01***			
Constant		3.10	.23	
Board		.76	.24	.29***
Corporate Strategy		.49	.22	.19*
Business generation		.61	.30	.18*
Board x Business generation		.03	.31	.01
Corporate Strategy x Business generation		.40	.29	.11

* $p < .05$. ** $p < .01$. *** $p < .00$.

Board ($b = .76$, $t(120) = 3.12$, $p < .01$) and corporate strategy ($b = .48$, $t(120) = 3.1$, $p < .05$) moderated by generation, were both found to be significant and associated with EBSP.

Group 4 Hypotheses: Family Influence

The following table represents a summary of the correlations analyzed in each of the individual regressions done for family influence variables.

Table 4.58 Pearson Product-Moment Correlations between Measures of EBSP and Family Influence

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
(1) EBSP																		
(2) PercentOwnership	-.08																	
(3) GenerationOwns	.06	-.22*																
(4) GenerationManages	.20*	-.19*	.76**															
(5) GenerationGovBoard	.24**	-.02	.35**	.43**														
(6) FamilyInfluence	.01	-.03	.09	.11	.16													
(7) FamShareSimValues	.05	.03	-.05	-.03	.14	.24**												
(8) FamBusShareSimValues	.04	.11	-.11	-.10	.16	.32**	.77**											
(9) FamSupportiveinOutsideDisc	.00	-.11	-.08	-.07	.03	.29**	.41**	.47**										
(10) FamilyFeelBusLoyalty	.11	-.03	-.09	.01	.11	.15	.61**	.62**	.49**									
(11) FamProudofBus	.02	-.02	-.07	-.08	.02	.18*	.51**	.53**	.50**	.50**								
(12) MuchGainedbyParticipating	.15	.05	.09	.13	.12	.13	.24**	.26**	.16	.26**	.37**							
(13) AgreeonGoalsPlansPolicies	.32**	.01	-.09	-.00	.26**	.21*	.51**	.56**	.31**	.52**	.46**	.54**						
(14) CareAboutBusFate	.14	-.03	-.06	-.03	.10	.12	.42**	.44**	.36**	.52**	.48**	.26**	.55**					
(15) BusInvisPositiveInfluence	.18*	.13	-.09	.03	.10	.25**	.43**	.56**	.27**	.39**	.36**	.44**	.55**	.30**				
(16) SupportFamBusDecisions	.17	.03	-.09	.05	.06	.23**	.42**	.49**	.35**	.43**	.48**	.43**	.58**	.41**	.82**			
(17) FamEffortBeyondExpected	.19*	.04	-.03	.06	.06	.27**	.38**	.47**	.29**	.36**	.53**	.31**	.47**	.44**	.43**	.54**		
(18) Spousal Influence	-.04	-.06	-.17	-.14	-.15	.28**	.02	.01	.07	.05	.04	.05	.03	-.07	.06	.07	.04	

Note. * $p < .05$ ** $p < .01$

Hypothesis 4.1: When family ownership increases, the extensiveness of business succession preparedness will increase.

The relationship between family ownership and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether having higher family ownership was associated with the extensiveness of business succession preparedness. It was determined that there was no correlation between the two variables (see Table 4.58). The simple regression model ($R^2 = .01$ $F(1, 126) = .71$ $p > .05$) indicated that having larger family ownership was not significant and was not associated with the extensiveness of business succession preparedness. Family ownership percentage explained approximately .6% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.59 Association between EBSP and Family Ownership Percentage

	r	p	R ²
Family Ownership Percentage	-.08	.40	.01

Note. * $p < .05$ ** $p < .01$

Hypothesis 4.2: When later generations own the business, the extensiveness of business succession preparedness will increase.

The relationship between which generation owns the business and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether later generations owning the business was associated with the extensiveness of business succession preparedness. This is defined differently than the generation of the business. The generation of the business represents the youngest generation that is involved in the business, regardless of ownership. It

was determined that there was no correlation between the two variables (see Table 4.58). The simple regression model ($R^2 = .00$ $F(1, 126) = .44$ $p > .05$) indicated that having later generations own the business was not significant and was not associated with the extensiveness of business succession preparedness. Generational ownership explained approximately .3% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.60 Association between EBSP and Generational Ownership

	r	p	R ²
Generational Ownership	.06	.51	.00

Note. * $p < .05$ ** $p < .01$

Hypothesis 4.3: When later generations manage the business, the extensiveness of business succession preparedness will increase.

The relationship between which generation manages the business and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether later generations managing the business was associated with the extensiveness of business succession preparedness. It was determined that there was a slight positive correlation between the two variables (see Table 4.58). The simple regression model ($R^2 = .04$ $F(1, 126) = 5.06$ $p < .05$) indicated that later generations managing the business was significant and associated with the extensiveness of business succession preparedness. Generational management explained approximately 3.9% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.61 Association between EBSP and Generational Management

	r	p	R ²
Generational Management	.20*	.03	.04

Note. * $p < .05$ ** $p < .01$

Hypothesis 4.4: When later generations are active on the governance board, the extensiveness of business succession preparedness will increase.

The relationship between which generation is active on the governance board and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether later generations being active on the governance board was associated with the extensiveness of business succession preparedness. It was determined that there was a moderate positive correlation between the two variables (see Table 4.58). The simple regression model ($R^2 = .06$ $F(1, 126) = 7.41$ $p < .01$) indicated that having later generations participate on the governance board was significant and was associated with the extensiveness of business succession preparedness. Generational participation on the governance board explained approximately 5.6% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.62 Association between EBSP and Participation on the Governance Board

	r	p	R ²
Participation on the Governance Board	.24**	.01	.056

Note. * $p < .05$ ** $p < .01$

Hypothesis 4.5: When family influence increases in the business, the extensiveness of business succession preparedness will increase.

The relationship between family influence on the business and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether higher family influence on the business was associated with the extensiveness of business succession preparedness. It was determined that there was no correlation between the two variables (see Table 4.58). The simple regression model ($R^2 = .00$ $F(1, 126) = .02$ $p > .05$) indicated that having higher family influence was not significant and was not associated with the extensiveness of business succession preparedness. Family influence explained none of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.63 Association between EBSP and Family Influence

	r	p	R ²
Family Influence	.01	.90	.00

Note. * $p < .05$ ** $p < .01$

Hypothesis 4.6: When the family shares similar values, the extensiveness of business succession preparedness will increase.

The relationship between the family sharing values and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether the family sharing values was associated with the extensiveness of business succession preparedness. It was determined that there was no correlation between the two variables (see Table 4.58). The simple regression model ($R^2 = .00$ $F(1, 126) = .26$ $p > .05$) indicated that the family sharing values was not significant and was not associated with the extensiveness of business succession preparedness.

The family sharing values explained approximately .2% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.64 Association between EBSP and Family Sharing Values

	r	p	R ²
Family Sharing Values	.05	.61	.00

Note. * $p < .05$ ** $p < .01$

Hypothesis 4.7: When the family and business share similar values, the extensiveness of business succession preparedness will increase.

The relationship between the family and business sharing values and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether the family and business sharing values was associated with the extensiveness of business succession preparedness. It was determined that there was no correlation between the two variables (see Table 4.58). The simple regression model ($R^2 = .00$ $F(1, 126) = .20$ $p > .05$) indicated the family and business sharing values was not significant and was not associated with the extensiveness of business succession preparedness. The family and business sharing values explained approximately .2% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.65 Association between EBSP and the Business and Family Sharing Values

	r	p	R ²
Business and Family Sharing Values	.04	.66	.00

Note. * $p < .05$ ** $p < .01$

Hypothesis 4.8: When family members support the business in discussions, the extensiveness of business succession preparedness will increase.

The relationship between business support in discussions and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether business support in discussions was associated with the extensiveness of business succession preparedness. It was determined that there was no correlation between the two variables (see Table 4.58). The simple regression model ($R^2 = .00$ $F(1, 126) = .00$ $p > .05$) indicated business support in discussions was not significant and was not associated with the extensiveness of business succession preparedness. Business support in discussions explained none of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.66 Association between EBSP and Business Support in Discussions

	r	p	R ²
Business Support in Discussions	.00	.97	.03

Note. * $p < .05$ ** $p < .01$

Hypothesis 4.9: When family members feel loyalty to the business, the extensiveness of business succession preparedness will increase.

The relationship between loyalty to the business and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether loyalty to the business was associated with the extensiveness of business succession preparedness. It was determined that there was a slight positive correlation between the two variables (see Table 4.58). The simple regression model ($R^2 = .01$ $F(1, 126) = 1.41$ $p > .05$) indicated loyalty to the business was not

significant and was not associated with the extensiveness of business succession preparedness. Loyalty to the business explained approximately 1.1% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.67 Association between EBSP and Family Loyalty to the Business

	r	p	R ²
Family Loyalty to the Business	.11	.24	.01

Note. * $p < .05$ ** $p < .01$

Hypothesis 4.10: When the family members are proud to tell others they are part of the business, the extensiveness of business succession preparedness will increase.

The relationship between family members being proud to tell others about the business and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether family members being proud to tell others about the business was associated with the extensiveness of business succession preparedness. It was determined that there was no correlation between the two variables (see Table 4.58). The simple regression model ($R^2 = .00$ $F(1, 126) = .07$ $p > .05$) indicated family members being proud to tell others about the business was not significant and was not associated with the extensiveness of business succession preparedness. Being proud to tell others about the business explained approximately .1% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.68 Association between EBSP and Being Proud to Tell Others about the Business

	r	p	R ²
Proud to Tell Others About the Business	.02	.79	.00

Note. * $p < .05$ ** $p < .01$

Hypothesis 4.11: When family members feel there is so much to be gained by participating with the family business in the long-term, the extensiveness of business succession preparedness will increase.

The relationship between feeling there is so much to be gained by participating with the family business in the long-term and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether feeling there is so much to be gained by participating with the family business in the long-term was associated with the extensiveness of business succession preparedness. It was determined that there was a slight positive correlation between the two variables (see Table 4.58). The simple regression model ($R^2 = .02$ $F(1, 126) = 2.78$ $p > .05$) indicated that feeling there was so much to be gained by participating with the family business in the long-term was not significant and was not associated with the extensiveness of business succession preparedness. Feeling there was so much to be gained by participating with the family business in the long-term explained approximately 2.2% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.69 Association between EBSP and Feeling There Was Much to be Gained by Participating With the Family Business in the Long-Term

	r	p	R ²
Feeling There Was Much to be Gained	.15	.10	.02

Note. * $p < .05$ ** $p < .01$

Hypothesis 4.12: When family members agree with the family business goals, plans, and policies, the extensiveness of business succession preparedness will increase.

The relationship between family member agreement and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether family agreement was associated with the extensiveness of business succession preparedness. It was determined that there was a moderate positive correlation between the two variables (see Table 4.58). The simple regression model ($R^2 = .10$ $F(1, 126) = 14.45$ $p < .01$) indicated family agreement was significant and was associated with the extensiveness of business succession preparedness. Family agreement explained approximately 10.3% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.70 Association between EBSP and Family Agreement

	r	p	R ²
Family Agreement	.32**	.00	.10

Note. * $p < .05$ ** $p < .01$

Hypothesis 4.13: When family members really care about the fate of the business, the extensiveness of business succession preparedness will increase.

The relationship between family member caring about the fate of the business and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether family members caring about the fate of the business was associated with the extensiveness of business succession preparedness. It was determined that there was a slight positive correlation between the two variables (see Table 4.58). The simple regression model ($R^2 = .02$ $F(1, 126) = 2.65$ $p > .05$) indicated family members caring about the fate of the business was not significant and was not associated with the extensiveness of business succession

preparedness. Family members caring about the fate of the business explained approximately 2.1% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.71 Association between EBSP and Family Members Caring About the Fate of the Business

	r	p	R ²
Family Members Caring About the Fate of the Business	.14	.11	.02

Note. * $p < .05$ ** $p < .01$

Hypothesis 4.14: When family members feel that participating in the business has a positive influence in their lives, the extensiveness of business succession preparedness will increase.

The relationship between family members feeling business participation is a positive experience and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether family members feeling business participation is a positive experience was associated with the extensiveness of business succession preparedness. It was determined that there was a slight positive correlation between the two variables (see Table 4.58). The simple regression model ($R^2 = .03$ $F(1, 126) = 4.06$ $p < .05$) indicated family members feeling business participation is a positive experience was significant and was associated with the extensiveness of business succession preparedness. Family members feeling business participation is a positive experience explained approximately 3.1% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.72 Association between EBSP and Family Members Feeling Business Participation is a Positive Experience

	r	p	R ²
Participation is a Positive Experience	.18*	.05	.03

Note. * $p < .05$ ** $p < .01$

Hypothesis 4.15: When family members support family decisions regarding the future of the family business, the extensiveness of business succession preparedness will increase.

The relationship between family members supporting family decisions regarding the future of the business and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether family members supporting family decisions regarding the future of the business was associated with the extensiveness of business succession preparedness. It was determined that there was a slight positive correlation between the two variables (see table 4.58). The simple regression model was ($R^2 = .03$ $F(1, 126) = 3.79$ $p > .05$). Family members supporting family decisions regarding the future of the business had borderline significance and may be associated with the extensiveness of business succession preparedness. Family members supporting family decisions regarding the future of the business explained approximately 2.9% of the variance for the extensiveness of business succession preparedness. However, it was not found to be significant and the hypothesis was rejected.

Table 4.73 Association between EBSP and Family Members Supporting Family Decisions Regarding the Future of the Business

	r	p	R ²
Family Members Supporting Family Decisions	.17	.05	.03

Note. * $p < .05$ ** $p < .01$

Hypothesis 4.16: When family members are willing to put in a great deal of effort beyond that normally expected to help the business be successful, the extensiveness of business succession preparedness will increase.

The relationship between family members putting in effort beyond what is expected and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether family members putting in effort beyond what is expected was associated with the extensiveness of business succession preparedness. It was determined that there was a slight positive correlation between the two variables (see Table 4.58). The simple regression model ($R^2 = .04$ $F(1, 126) = 4.94$ $p < .05$) indicated family members putting in more effort than expected was significant and was associated with the extensiveness of business succession preparedness. Family members putting in more effort than what was expected explained approximately 3.8% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.74 Association between EBSP and Family Members Putting in Effort Beyond Expected

	r	P	R ²
Family Members Putting in Effort Beyond Expected	.19*	.03	.04

Note. * $p < .05$ ** $p < .01$

Hypothesis 4.17: When the owner's spouse involvement in the business increases, the extensiveness of business succession preparedness will increase.

The relationship between primary owner spousal involvement and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation

coefficient analysis and ordinary least squares regression to determine whether spousal involvement was associated with the extensiveness of business succession preparedness. It was determined that there was no correlation between the two variables (see Table 4.58). The simple regression model ($R^2 = .00$ $F(1, 91) = .15$ $p > .05$) indicated spousal involvement was not significant and was not associated with the extensiveness of business succession preparedness. Spousal involvement explained approximately .2% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.75 Association between EBSP and Spousal Involvement

	r	p	R ²
Spousal Involvement	.04	.70	.00

Note. * $p < .05$ ** $p < .01$

Hypothesis 4.18: The relationship between family influence and the extensiveness of business succession preparedness will be moderated by the generation of the business.

A Principle Component Analysis (PCA) with a varimax rotation was conducted to determine the number of factors within access to capital and derive respective Anderson Rubin scores to act as latent variables for each factor of access to family influence. This model was then moderated by the business generation (1st, 2nd, or 3rd+) to determine whether it was improved by the inclusion of the generation of the business (generational effect). In order to determine the generation effect on the model, interaction variables and the moderating variable were transformed using mean centering.

Table 4.76 Family Influence Factor Loading Four-Factor PCA Solution

	Factor 1 scores	Factor 2 scores	Factor 3 scores	Factor 4 scores
Family influence subscales				
1. Family and Business Share Values	.79			
2. Family Share Values	.78			
3. Family Loyalty to Family Business	.73			
4. Family Supports Business in Discussions with Others	.72			
5. Family Proud of Business	.59			
6. Family Cares About Business Fate	.53			
7. Family Influence on Business	.43			
8. Support Family Decisions Around Business		.81		
9. There is Much Potential Long-Term Gain by Participating		.76		
10. Positive Influence on Life		.76		
11. Family Agreement with Business Goals		.68		
12. Family Put in Great Deal of Effort		.57		
13. Generation of Ownership			.87	
14. Generation of Management			.84	
15. Governance Board Generation			.71	
16. Ownership Percentage				.80

As a result of the Principal Component Analysis (PCA), four factors were derived and named as *culture1* (factor 1), *culture2* (factor 2), *experience* (factor 3), and *power* (factor 4). A four-factor solution explained approximately 63.7% of the total variance.

To test moderation for family influence, a hierarchical regression was performed. In the first step, four Anderson Rubin factors, power, influence, culture1, and culture2, were included, along with business generation. Multicollinearity diagnostics were assessed and were within an acceptable range (i.e., tolerance ranges of .53 to .95 and variance inflation factors (VIF) of less than two). The hierarchical regression model was significant ($R^2 = .13$ $F(5, 122) = 3.59$, $p < .01$). In the second step, Anderson Rubin factors multiplied by business generation were entered into the next block to moderate by generation. Moderated by generation, the model changed to ($R^2 = .14$ $F(9, 118) = 2.17$, $p < .05$) and was significant. Including the business generation in the model

improved the explanation of the variance based on the R^2 by 1.4%. This means that the impact of family influence on the extensiveness of business succession preparedness explained approximately 12.8% of the variance in the model. However, consistent with the hypothesis, this increased to 14.2% when moderated by the generation of the business, suggesting that family influence is significant and positively moderated by generation when associated with the extensiveness of succession planning. As a result, the hypothesis was confirmed.

Table 4.77 Summary of Hierarchical Regression Analysis for Family Influence Anderson Rubin Factors Association with EBSP

Variable	ΔR^2	B	$SE B$	β
Step 1	.13***			
Constant		3.12	.22	
Power		.09	.23	.03
Experience		.65	.22	.25***
Culture1		.12	.28	.05
Culture2		-.03	.23	-.01
Business generation		.78	.38	.22*
Step 2	.01*			
Constant		3.13	.27	
Power		.04	.23	.01
Experience		.74	.24	.28***
Culture1		.12	.31	.04
Culture2		-.04	.24	-.01
Business generation		.81	.38	.23*
Power x Business generation		.12	.29	.04
Experience x Business generation		.35	.30	.11
Culture1 x Business generation		-.04	.32	-.01
Culture2 x Business generation		-.23	.29	-.07

* $p < .05$. ** $p < .01$. *** $p < .00$.

Power, culture1, and culture2 were not significant associations in the model. Experience ($b = .74$, $t(118) = 3.04$, $p < .01$) was significant and was associated with the extensiveness of business succession, moderated by business generation.

Group 5 Hypotheses: Access to Capital

The following table represents a summary of the correlations analyzed in each of the individual regressions done for access to capital variables.

Table 4.78 Pearson Product-Moment Correlations between Measures of EBSP and Access to Capital

Variables	1	2	3	4	5
(1) EBSP					
(2) AccesstoCapital	.19*				
(3) FamilyCapImportance	.15	.13			
(4) BusinessReservesImport	.29**	.17	.53**		
(5) BankLoanImportance	.04	-.11	.18*	.18*	

*Note. *p<.05 **p<.01*

Hypothesis 5.1: When family businesses have access to capital, the extensiveness of business succession preparedness will increase.

The relationship between family business access to capital and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine the extent that access to capital was associated with the extensiveness of business succession preparedness. It was determined that there was a slight positive correlation between the two variables (see Table 4.78). The simple regression model ($R^2 = .04$ $F(1, 126) = 4.88$, $p < .05$) indicated that access to capital was significant and associated with the extensiveness of business succession preparedness. Access to capital explained approximately 3.7% of the variance of the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.79 Association between EBSP and Access to Capital

	r	p	R ²
Access to Capital	.19*	.03	.04

Note. * $p < .05$ ** $p < .01$

Hypothesis 5.2: When family businesses have access to family capital, the extensiveness of business succession preparedness will increase.

The relationship between access to family capital and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine the extent that access to family capital was associated with the extensiveness of business succession preparedness. It was determined that there was a slight positive correlation between the two variables (see Table 4.78). The simple regression model ($R^2 = .02$ $F(1, 126) = 2.97$, $p > .05$) indicated that access to family capital was not significant and not associated with the extensiveness of business succession preparedness. Access to capital explained approximately 2.3% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.80 Association between EBSP and Access to Family Capital

	r	p	R ²
Access to Family Capital	.15	.09	.02

Note. * $p < .05$ ** $p < .01$

Hypothesis 5.3: When family businesses have access to internal business capital, the extensiveness of business succession preparedness will increase.

The relationship between family business access to internal business capital and the extensiveness of business succession preparedness was analyzed, using a Pearson product-

moment correlation coefficient analysis and ordinary least squares regression to determine the extent that access to internal business capital was associated with the extensiveness of business succession preparedness. It was determined that there was a moderate positive correlation between the two variables (see Table 4.78). The simple regression model ($R^2 = .09$ $F(1, 126) = 11.65$, $p < .05$) indicated that access to internal business capital was significant and associated with the extensiveness of business succession preparedness. Access to internal business capital explained approximately 8.5% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.81 Association between EBSP and Access to Internal Business Capital

	r	p	R ²
Internal Business Capital	.29**	.00	.09

Note. * $p < .05$ ** $p < .01$

Hypothesis 5.4: When family businesses have access to external capital (i.e., loans, lines of credit) the extensiveness of business succession preparedness will increase.

The relationship between access to external capital and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine the extent that access to external capital was associated with the extensiveness of business succession preparedness. It was determined that there was no correlation between the two variables (see Table 4.78). The simple regression model ($R^2 = .00$ $F(1, 126) = .19$, $p > .05$) indicated that access to external capital was not significant and was not associated with the extensiveness of business succession preparedness. Access to external capital explained approximately .01% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.82 Association between EBSP and Access to External Capital

	r	p	R ²
Access to External Capital	.04	.67	.00

Note. * $p < .05$ ** $p < .01$

Hypothesis 5.5: The relationship between access to capital and the extensiveness of business succession preparedness will be moderated by the generation of the business.

A Principle Component Analysis (PCA) with a varimax rotation was conducted to determine the number of factors within access to capital and derive respective Anderson Rubin scores to act as latent variables for each factor of access to capital characteristics. This model was then moderated by the business generation (1st, 2nd, or 3^{rd+}) to determine whether it was improved by the inclusion of the generation of the business (generational effect). In order to determine the generation effect on the model, interaction variables and the moderating variable were transformed using mean centering.

Table 4.83 Access to Capital Factor Loading Two-Factor PCA Solution

	Factor 1 scores	Factor 2 scores
Access to capital		
1. Access to Capital	.85	
2. Access to Family Capital	.84	
3. Access to Internal Business Capital		.77
4. Access to External Capital		-.71

As a result of the Principal Component Analysis (PCA), two factors were derived and named *capital access* (factor 1) and *business bank capital* (factor 2). A two-factor solution explained approximately 69.5% of the total variance.

To test moderation for access to capital, a hierarchical regression was performed. In the first step, two Anderson Rubin factors, capital access and business bank capital, were included, along with business generation. Multicollinearity diagnostics were assessed and were within an acceptable range (i.e., tolerance ranges of .96 to .98 and variance inflation factors (VIF) of less than two). The hierarchical regression model was significant ($R^2 = .14$ $F(3, 124) = 6.57$, $p < .01$). In the second step, Anderson Rubin factors multiplied by business generation were entered into the next block to moderate by generation. Moderated by generation, the model changed to ($R^2 = .17$ $F(5, 122) = 4.85$, $p < .01$) and was significant. Including the business generation in the model was significant and improved the explanation of the variance based on the R^2 by 2.9%. This means that the impact of access to capital on the extensiveness of business succession preparedness explained approximately 13.7% of the variance in the model. However, consistent with the hypothesis, this increased to 16.6% when moderated by the generation of the business, suggesting that access to capital was positively moderated by generation when used to show association with the extensiveness of succession planning. As a result, the hypothesis was confirmed.

Table 4.84 Summary of Hierarchical Regression Analysis for Access to Capital Anderson Rubin Factors Association with Business Succession

Variable	ΔR^2	<i>B</i>	<i>SE B</i>	β
Step 1	.14***			
Constant		3.12	.22	
Capital access		.64	.22	.24***
BusinessBankCapital		.32	.22	.12
Business generation		.78	.29	.23***
Step 2	.03***			
Constant		3.10	.22	
Capital access		.63	.22	.24***
BusinessBankCapital		.26	.22	.10
Business generation		.82	.29	.24***
Capital access x Business generation		.04	.27	.01

BusinessBankCap x Business generation	-.59	.29	-.17*
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* $p < .05$. ** $p < .01$. *** $p < .00$.

Access to business bank capital was not a significant association in the final model. Capital access ($b = .63$, $t(122) = 2.80$, $p < .01$) was significant and associated with the extensiveness of business succession, moderated by business generation.

Group 6 Hypotheses: External Environmental Conditions

The following table represents a summary of the correlations analyzed in each of the individual regressions done for external environment variables.

Table 4.85 Pearson Product-Moment Correlations between Measures of EBSP and External Environmental Conditions

Variables	1	2	3	4	5	6	7
(1) EBSP							
(2) MetroSize	-.18*						
(3) MetroGrowth	.03	-.20					
(4) EconomicTurbulence	-.10	-.04	-.01				
(5) GrowthIndustries	-.07	.23**	.20*	.05			
(6) SuccessionRegulated	.02	.14	-.21*	.27**	.08		
(7) TaxEnvironment	.12	.04	-.08	.12	-.06	.28**	

Note. * $p < .05$ ** $p < .01$

Hypothesis 6.1: When family businesses are located in large metropolitan areas, the extensiveness of business succession preparedness will increase.

The relationship between business metropolitan area size and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether being in a larger metropolitan area was associated with the extensiveness of business succession preparedness. It

was determined that there was a slight positive correlation between the two variables as metropolitan areas increase in size (see Table 4.85). The simple regression model ($R^2 = .03$ $F(1, 126) = 4.20$ $p < .05$) indicated having a larger metropolitan area was significant and was associated with the extensiveness of business succession preparedness. Metropolitan area size explained approximately 3.2% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was confirmed.

Table 4.86 Association between EBSP and Metropolitan Area Size

	r	p	R ²
Metropolitan Area Size	.18*	.04	.03

Note. * $p < .05$ ** $p < .01$

Hypothesis 6.2: When family businesses are located in a metropolitan area with high growth prospects, the extensiveness of business succession preparedness will increase.

The relationship between business metropolitan area growth prospects and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether having better metropolitan area growth prospects was associated with the extensiveness of business succession preparedness. It was determined that there was no correlation between the two variables (see table 4.85). The simple regression model ($R^2 = .00$ $F(1, 126) = .11$ $p > .05$) indicated having greater metropolitan area growth prospects was not significant and was not associated with the extensiveness of business succession preparedness. Metropolitan area growth prospects explained approximately .1% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.87 Association between EBSP and Metropolitan Area Growth Prospects

	r	p	R ²
Metropolitan Area Growth Prospects	.03	.74	.00

Note. * $p < .05$ ** $p < .01$

Hypothesis 6.3: When family businesses are seeing less economic turbulence, the extensiveness of business succession preparedness will increase.

The relationship between economic turbulence and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether economic turbulence was associated with the extensiveness of business succession preparedness. It was determined that there was no correlation between the two variables (see table 4.85). The simple regression model ($R^2 = .01$ $F(1, 126) = 1.20$ $p > .05$) indicated economic turbulence was not significant and not associated with the extensiveness of business succession preparedness. Economic turbulence explained approximately .9% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.88 Association between EBSP and Economic Turbulence

	r	p	R ²
Economic Turbulence	.10	.28	.01

Note. * $p < .05$ ** $p < .01$

Hypothesis 6.4: When family businesses are in growth industries, the extensiveness of business succession preparedness will increase.

The relationship between businesses in growth industries and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether being in a growth

industry was associated with the extensiveness of business succession preparedness. It was determined that there was no correlation between the two variables (see Table 4.85). The simple regression model ($R^2 = .01$ $F(1, 126) = .59$ $p > .05$) indicated being in a growth industry was not significant and was not associated with the extensiveness of business succession preparedness. Being in a growth industry explained approximately .5% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.89 Association between EBSP and Industry Life Cycle

	r	p	R ²
Industry Life Cycle	.07	.44	.01

Note. * $p < .05$ ** $p < .01$

Hypothesis 6.5: When family businesses have regulatory requirements requiring succession plans, the extensiveness of business succession preparedness will increase.

The relationship between regulatory requirements requiring a succession plan and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether regulatory requirements requiring a succession plan was associated with the extensiveness of business succession preparedness. It was determined that there was no correlation between the two variables (see table 4.85). The simple regression model ($R^2 = .00$ $F(1, 126) = .04$ $p > .05$) indicated having regulatory requirements requiring a succession plan was not significant and was not associated with the extensiveness of business succession preparedness. Regulatory requirements requiring a succession plan explained none of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.90 Association between EBSP and Regulatory Requirements Requiring a Succession Plan

	r	p	R ²
Regulatory Requirements Requiring a Succession Plan	.02	.84	.00

Note. * $p < .05$ ** $p < .01$

Hypothesis 6.6: When family businesses have a less favorable tax environment, the extensiveness of business succession preparedness will increase.

The relationship between the tax environment and the extensiveness of business succession preparedness was analyzed, using a Pearson product-moment correlation coefficient analysis and ordinary least squares regression to determine whether a less favorable tax environment was associated with the extensiveness of business succession preparedness. It was determined that there was a slight positive correlation between the two variables (see Table 4.85). The simple regression model ($R^2 = .01$ $F(1, 126) = 1.81$ $p > .05$) indicated the tax environment was not significant and was not associated with the extensiveness of business succession preparedness. The tax environment explained approximately 1.4% of the variance for the extensiveness of business succession preparedness. As a result, the hypothesis was rejected.

Table 4.91 Association between EBSP and the Tax Environment

	r	p	R ²
Tax Environment	.12	.18	.01

Note. * $p < .05$ ** $p < .01$

Hypothesis 6.7: The relationship between external environmental conditions and the extensiveness of business succession preparedness will be moderated by the generation of the business.

A Principle Component Analysis (PCA) with a varimax rotation was conducted to determine the number of factors within the external environment and derive respective Anderson Rubin scores to act as latent variables for each factor of external environment variables. This model was then moderated by the business generation (1st, 2nd, or 3rd+) to determine whether it was improved by the inclusion of the generation of the business (generational effect). In order to determine the generation effect on the model, interaction variables and the moderating variable were transformed using mean centering.

Table 4.92 External Environmental Conditions Factor Loading Two-Factor PCA Solution

	Factor 1 scores	Factor 2 scores
Access to capital		
1. Access to Capital	.85	
2. Access to Family Capital	.84	
3. Access to Internal Business Capital		.77
4. Access to External Capital		-.71

As a result of the Principal Component Analysis (PCA), two factors were derived and named *metropolitan* (factor 1) and *environment* (factor 2). A two-factor solution explained approximately 48.9% of the total variance.

To test for moderation among external environmental factors, a hierarchical regression was performed. In the first step, two Anderson Rubin factors, metropolitan and environment, were included, along with business generation. Multicollinearity diagnostics were assessed and were within an acceptable range (i.e., tolerance ranges of .96 to .99 and variance inflation factors (VIF) of less than two). The hierarchical regression model was significant ($R^2 = .09$ $F(3, 124) = 3.87$, $p < .05$). In the second step, Anderson Rubin factors multiplied by business generation were entered into the next block to moderate by generation. Moderated by generation, the model changed to ($R^2 = .12$ $F(5, 122) = 3.27$, $p < .01$) and was significant. Including the business

generation in the model improved the explanation of the variance based on the R^2 by 3.2%. This means that the impact of the external environment on the extensiveness of business succession preparedness explained approximately 8.6% of the variance in the model. However, consistent with the hypothesis, this increased to 11.8% when moderated by the generation of the business, suggesting that the external environment is significant and positively moderated by generation when associated with the extensiveness of succession planning. As a result, the hypothesis was confirmed.

Table 4.93 Summary of Hierarchical Regression Analysis for External Environment Anderson Rubin Factors Association with EBSP

Variable	ΔR^2	<i>B</i>	<i>SE B</i>	β
Step 1	.09*			
Constant		3.12	.23	
Metropolitan Environment		-.40	.23	-.14
Business generation		-.03	.23	-.01
		.92	.30	.26***
Step 2	.03**			
Constant		3.10	.23	
Metropolitan Environment		-.40	.23	-.15
Business generation		.00	.23	.00
Metropolitan x Business generation		.92	.30	.27***
Environment x Business generation		-.60	.29	-.18*
		.19	.31	.05

* $p < .05$. ** $p < .01$. *** $p < .00$.

Metropolitan had borderline significance ($b = -.40$, $t(122) = -1.77$, $p = .08$). In addition, when moderated by the metropolitan variable (metropolitan X business generation) significantly contributed to the model ($b = -.60$, $t(122) = -2.07$, $p < .05$).

Testing the Family Business Succession Model

The following table (Table 4.94) represents the correlations of all 17 Anderson Rubin factor scores (latent variables) used to test the Family Business Succession Model.

Table 4.94 Pearson Product-Moment Correlations of Family Business Succession Model Latent Variables

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
(1) EBSP																	
(2) OwnerCharacteritics - Intent	.52**																
(3) OwnerCharacteritics - Business Income	.08	.00															
(4) OwnerCharacteritics - Demographics	-.01	.00	.00														
(5) OwnerCharacteritics - Leadership	.16	.00	.00	.00													
(6) EnterpriseCharacteristics - Performance	.30**	.15	-.07	.15	.08												
(7) EnterpriseCharacteristics - CEO Tenure	-.07	-.29**	.22*	-.21*	.10	.00											
(8) EnterpriseCharacteristics - Business Age	.20*	.24*	-.05	.18*	-.03	.00	.00										
(9) Business Formality - Board	.35**	.13	-.03	.14	.15	.38**	.18*	.25**									
(10) Business Formality - Corporate Strategy	.17	-.03	-.02	.29**	.31**	.17	-.06	-.04	.00								
(11) Family Influence - Power	.01	-.13	-.11	.24**	.13	.06	-.03	-.15	.12	.03							
(12) Family Influence - Experience	.25**	.23**	.04	.08	.20*	.28**	.22*	.06	.22*	.07	.00						
(13) Family Influence - Culture1	.18*	-.04	.01	.03	.10	.02	.26**	.51**	.36**	-.04	.00	.00					
(14) Family Influence - Culture2	-.03	.10	.09	.01	-.02	-.06	-.01	-.13	-.16	.13	.00	.00	.00				
(15) Access to Capital - Family	.27**	.27**	-.07	.09	-.01	.17	-.01	.08	.09	.11	-.08	.29**	.06	-.02			
(16) Capital - Business Bank	.12	.17	.10	-.05	.05	.38**	.04	-.01	.05	-.06	-.04	.13	-.03	.00	.00		
(17) Economic Environment - Metropolitan	-.13	-.08	.20*	-.10	-.14	-.37**	.10	.16	-.15	-.11	-.09	-.08	.09	.16	.09	.00	
(18) Economic Environment	.04	.14	-.10	.00	-.08	-.09	-.18*	.24**	.17	-.02	.08	-.07	.11	-.12	.40**	-.12	.00

Note. * $p < .05$ ** $p < .01$

Hypothesis 7.1: The relationship between the Family Business Succession Model concepts (i.e., ownership characteristics, enterprise characteristics, business formality, family influence, access to capital, and external environmental factors) and the extensiveness of business succession preparedness will be moderated by the generation of the business.

The effect of all 17 Anderson Rubin scores constituting family business owner characteristics, enterprise characteristics, business formality, family influence, access to capital, and the external environmental factors on the extensiveness of succession preparedness was analyzed using a hierarchical regression, with the business generation acting as a moderator. This was done to determine the extent that these variables were associated with the extensiveness of business succession preparedness. The standard beta estimates of each variable were measured within the group to determine their respective value to the model. Intent (ownership characteristics) contributed the most to the model ($\beta = 0.41$, $p < .05$), followed by the board scale (business formality) ($\beta = 0.24$, $p < .05$), corporate strategy ($\beta = 0.20$, $p < .05$), demographics ($\beta = -0.20$, $p < .05$), family access to capital (access to capital) ($\beta = 0.18$, $p < .05$), external environment ($\beta = -0.17$, $p < .05$) and business income (owner characteristics) ($\beta = 0.15$, $p < .05$).

Table 4.95 Summary of Hierarchical Regression Analysis for the Family Business Succession Model Anderson Rubin Factors Association with EBSP

Variable	ΔR^2	B	SE B	B
Step 1	.49***			
Constant		3.12	.18	
Owner Characteristics				
Intent		1.10	.24	.41***
Business income		.39	.20	.15*
Demographics		-.53	.22	-.20*
Leadership		.06	.21	.02
Enterprise Characteristics				
Performance		.16	.26	.06
CEO Tenure		-.32	.24	-.12
Business Age		.17	.26	.06
Business Formality				
Board		.62	.24	.24*
Corporate Strategy		.53	.22	.20*
Family Influence				
Power		.21	.20	.08
Experience		.08	.22	.03
Culture1		.23	.28	.09
Culture2		-.18	.20	-.07
Access to Capital				
Capital access		.48	.24	.18*
BusinessBankCapital		-.05	.21	-.02
External Environment				
Metropolitan Environment		-.16	.22	-.06
		-.45	.23	-.17*
Moderating Variable				
Business generation		.24	.34	.07
Step 2	.10***			
Constant		3.01	.24	
Owner Characteristics				
Intent		1.01	.26	.38***
Business income		.34	.23	.13
Demographics		-.50	.25	-.19*
Leadership		-.14	.26	-.05
Enterprise Characteristics				
Performance		.27	.28	.10
CEO Tenure		-.13	.28	-.05
Business Age		.34	.28	.13
Business Formality				
Board		.63	.26	.24*
Corporate strategy		.48	.24	.18*
Family Influence				

Power	.19	.21	.07
Experience	.07	.26	.03
Culture1	-.05	.33	-.02
Culture2	-.05	.22	-.02
Access to Capital			
Capital access	.58	.25	.22*
BusinessBankCapital	-.08	.23	-.03
External Environmental Variables			
Metropolitan	-.07	.24	-.03
Environment	-.41	.25	-.16
Moderating Variable			
Business generation	.17	.38	.05
Interaction Variables			
Intent x Business generation	.06	.37	.02
Business income x Business generation	.24	.32	.07
Demographics x Business generation	.31	.32	.09
Leadership x Business generation	.49	.34	.16
Performance x Business generation	-.71	.41	-.21
CEO Tenure x Business generation	-.34	.37	-.10
Business age x Business generation	-.29	.40	-.08
Employee motiv x Business generation	.43	.33	.12
Board x Business generation	-.04	.39	-.01
Corporate strategy x Business generation	-.21	.34	-.06
Power x Business generation	-.29	.29	-.09
Experience x Business generation	.11	.34	.03
Culture1 x Business generation	.44	.41	.13
Culture2 x Business generation	-.25	.30	-.08
Capital access x Business generation	.03	.32	.01
BusinessBankCap x Business generation	-.44	.35	-.13
Metropolitan x Business generation	-.39	.35	-.12
Environment x Business generation	-.11	.35	-.03

* $p < .05$. ** $p < .01$. *** $p < .00$.

The strength of the model relationships was measured to determine the extent that the business generation helped better explain the relationship between the variables and the extensiveness of business succession preparedness. There was not a large difference between the division of generations in the moderating variable. The sample consisted of 37.8% of businesses in the first generation, 39.4% in the second generation, and 22.7% in the third generation +. In

order to determine the generation effect on the model, interaction variables and the moderating variable were transformed using mean centering.

As a result of the Principal Component Analyses (PCA), 17 factors were derived among all six groups of variables based on the following breakdown: family business owner characteristics (4); enterprise characteristics (3); business formality (2); family influence (4); access to capital (2); and the external environment (2). An Anderson Rubin score was derived for each of these latent factors. Interaction items were then calculated by multiplying the respective latent variable by the moderator (i.e., business generation). A hierarchical regression was performed in blocks by including all 17 latent variables and the moderating variable in the first block and all interaction variables (i.e., latent variables multiplied by business generation) into the second block to determine the extent that the generation effect influences the relationship between latent variables and the extensiveness of business succession preparedness. Multicollinearity diagnostics were assessed and were within acceptable ranges (i.e., tolerance ranges of .50 to .84 and variance inflation factors (VIF) of less than three). The hierarchical regression model was significant ($R^2 = .49$, $F(19, 107) = 5.32$, $p < .01$). In the second step, the model changed to ($R^2 = .58$, $F(37, 89) = 3.33$, $p < .01$) and was significant. Including the moderating effect of business generation in the model improved the explanation of the variance based on the R^2 by 9.5%. As a result, the hypothesis was confirmed. The impact of ownership characteristics, enterprise characteristics, business formality, family influence, access to capital, and external environmental factors on the extensiveness of business succession preparedness explained approximately 48.6% of the variance in the model. However, this increased to 58.1% when moderated by the generation of the business, suggesting that the relationship among Family Business Succession Model factors and EBSP is positively moderated by generation.

The following factor scores were not significantly associated with EBSP in the final model: (a) leadership and business income (owner characteristics); (b) performance, CEO tenure, and business age (enterprise characteristics); (c) employee motivation (business formality); (d) power, experience, culture 1, and culture2 (family influence); (e) business bank capital (access to capital); and (f) metropolitan and environment (external environmental factors).

The following factors were significant and associated with extensiveness of business succession preparedness, moderated by business generation, in the final model: (a) intent (owner characteristics), $b = 1.00$, $t(89) = 3.85$, $p < .01$; (b) demographics (owner characteristics), $b = -.50$, $t(89) = -2.02$, $p < .05$; (c) board (business formality), $b = .63$, $t(89) = 2.40$, $p < .01$; (d) corporate strategy (business formality), $b = .48$, $t(89) = 2.02$, $p < .05$; and (e) capital access (access to capital), $b = .57$, $t(89) = 2.31$, $p < .05$.

Summary of Results

Multiple techniques were used in this study, including a Delphi Study, scale reliability analyses, Pearson's Product-Moment Correlation Coefficients correlation, simple OLS regressions, Principal Component Analyses (PCA), and hierarchical regressions (to determine a moderating effect). The Delphi study and subsequent Principal Component Analysis (PCA) provided a basis for a new scale named *Extensiveness of Business Succession Preparedness* (EBSP) Scale and was used as the study dependent variable to measure succession preparedness in family businesses. In addition, a Principal Component Analysis (PCA) provided the basis of a scale for business formality with two sub-scales named *board* and *corporate strategy*. Support was found for the importance of considering owner characteristics, enterprise characteristics, business formality, family influence, access to capital, and external environmental factors when assessing EBSP. In addition, support was found for business formality being a component

separate from enterprise characteristics. The most important contributors within each group were identified, which resulted in identification of the use of a corporate board and business formalizing as critical factors that affect succession preparedness. Finally, the generation of the business was determined to add to the model by providing additional explanation of the interaction of these model components. The results of the study will help family business practitioners and researchers to better understand the dynamics that influence the extensiveness of family business succession preparedness. A discussion of the results can be found in Chapter 5.

Chapter 5 - Discussion

The results of this study demonstrate the strength of the expanded Family Business Succession Model in explaining the extensiveness of succession preparedness. While not all hypotheses were supported, all components of the model were found to meaningfully add to the model, including the moderation effect of business generation. The logic underlying the model is that succession preparedness is complex. There is a relationship between many variables (i.e., identified within owner characteristics, enterprise characteristics, business formality, family influence, and external environmental conditions groups) and succession preparedness, and the generation of the business moderates these relationships. Chapter five addresses the important findings of this study, including the factors that impact EBSP. The discussion is concluded by the limitations related to this study, implications for practitioners, and future directions for research.

This study or any study related to family business is conducted because it is believed that these businesses are distinct from nonfamily businesses. The idea that family businesses may have competitive advantages that make them distinct is the underlying reason they are studied. These competitive advantages may result from longer CEO tenures, a shared vision, more experience addressing economic downturns, and a longer-term outlook (Klein et al., 2005). However, distinctions can either add to or diminish the competitive advantage of family businesses over time as the family system overlaps the enterprise system and nonfamily employee system.

Being able to distinguish between family businesses and nonfamily businesses in order to identify unique characteristics within family businesses is foundational in family business research. However, those unique characteristics are not consistently measured among family

business researchers. One way to assess the distinct resources of family businesses is the use of the F-PEC scale, which is used to measure the resources of family businesses by measuring the family's power, experience, and culture. As this measure is used among family business studies, it creates consistency in the identity of family businesses between studies. In this study, having power represented the ability to gain access to resources and to exercise some level of control over the external environment (e.g., decide when taxes are paid, regulatory oversight by deciding which industries to participate, and opportunities related to economic cycles). Experience represented a potential competitive advantage in that the family may have already experienced succession, dealt with various economic cycles, shifted industries, and have a more seasoned CEO than a nonfamily business. The unique culture of a family business can be represented in a shared vision and a consistent set of values that drive enterprise activities, and can increase the aptitude of the organization. The power, experience, and culture of a family business can combine to result in a higher level of skills and knowledge in comparison to nonfamily businesses (Klein et al., 2005).

The Family Business Succession Paradox

Discussion of succession should begin with an appreciation for its complexity. A paradox involves two perceived contradictory truths, but while both points of view have some accuracy, neither is complete (Schuman, Stutz, & Ward, 2010). When considered together, they defy what one thinks is possible. Traditional approaches to problem solving used alone are not effective when applied to a paradox because it cannot be solved; it must be managed. Problems that can be solved have an end point and two noninterdependent alternatives. The succession of a family business is a paradox because it requires ongoing management. It is both an event and a process and is a problem that is managed over time rather than solved. For a family business owner, a

paradox is the tension between maintaining control of a business and letting go at the same time. When a succession event is finalized, the process begins again immediately for the next generation.

What started out to be an effective succession plan can turn into an ineffective plan very quickly. The need to adjust or completely rethink the plan can be due to staffing changes, owner health, demographic shifts, tax law changes, regulatory changes, or industry changes. The process of ongoing management of the succession process involves addressing overlapping systems. This includes making sure that the right business structures are in place (e.g., a board, key management team) and that there is proper ongoing leadership development for the key management team and successor. In addition, it involves making sure that the family experience and culture are used to further extensiveness of business succession preparedness (EBSP). As the business and family systems interact, items that must be considered include: (a) an appropriate valuation; (b) a way to flow the business internally so the current owner can be fully paid and retire; (c) a plan that does not deter business growth; and (d) development of a contingency plan in the event of death, disability, or market conditions alter the succession plan. The process of business internal transfer can be long and arduous and the complexities are demonstrated by the numerous factors shown in the Family Business Succession Model.

The risk of treating succession like a traditional problem is that one is abandoning one side of the paradox in favor of solution, resulting in other additional problems over time on the side of the paradox not chosen. Paradoxes require working in the face of uncertainty, utilizing a combination of heuristic and algorithmic method (Schuman et al., 2010). The question becomes whether two opposing forces can be synthesized and integrated, and even fused over the long-run

as a result of being addressed together, recognizing that in the short run, significant tension can be experienced (Schuman et al., 2010).

Succession paradox examples that create these tensions include: (a) fund the transfer internally or use a third party, (b) set a firm date for transfer or remain flexible, (c) transfer conveniently or tax efficiently, (d) have a strict hierarchy or give employees freedom, and (e) maintain voting control until the end versus phasing out control. At the core of each paradox is choosing the family or the business systems. There is not a correct answer that can be applied across family businesses, although there are some consistent themes that are found across the founder stage, sibling partner stage, and cousin consortium stage businesses (Schuman et al., 2010).

The Family Business Succession Model is flexible and the purpose of this study was to find ways to make it practical and empowering for family business advisors who help family businesses manage the difficult succession paradox examples identified. Measures developed and tested in this study (e.g., EBSP scale, business formality scale) are point in time measures. These measures assess where a family business stands in terms of succession preparedness and formality. However, the measures become increasingly valuable as they are used to re-assess progress at set intervals over time, to ensure that smooth intergenerational business transfers take place and the senior generation is able to retire. The risk of not making these assessments is that successors are not prepared and the business is not sufficiently prepared at the point the senior generation seeks to leave the business.

The Family Business Succession Model

The Family Business Succession Model represents how six constructs (i.e., owner characteristics, enterprise characteristics, family influence, business formality, access to capital,

and external impacting factors) individually and together impact EBSP. How these constructs function individually and together is influenced by business generation, meaning that variables may change in importance and focus depending on the generation managing the business. This study expanded on Davis and Harveston (1998) and Westhead's (2003) Family Business Succession Model by addressing the impact of intent to transfer wealth and the business, separating business formality from ownership characteristics and developing a scale to recognize it as a distinct element of the model, and measuring family influence with the F-PEC scale. To test the expanded model, a new measure to assess family business succession preparedness was developed. This measure provides a valid and reliable way to measure EBSP.

Measuring the Extensiveness of Business Succession Preparedness

As a result of a Delphi study described in Chapter 3 and the statistical analysis discussed in Chapter 4 to assess validity and reliability, a new scale was developed to specifically measure the extensiveness of business succession preparedness (EBSP) in family businesses. This represents an addition to the literature to serve as a critical measure of the work a family business has done to prepare for succession. The new scale served as the dependent variable in this study, and as indicated by strong psychometric data, represents a potential measure of EBSP for future studies.

Internal reliability of the EBSP scale was tested using Cronbach's coefficient alpha for the scale and was found to be high ($\alpha = .87$). Responses to eight dichotomous questions were summed to create a single measure, ranging from "0" (*low*) to "8" (*high*) and the average was 3.13 ($M = 3.13, SD = 2.65$), indicating a low level of succession preparedness. The higher the score, the more extensive the succession planning had taken place. Whether the scores were high or low, they represent point in time measures. Succession is a process and must be managed,

often over a long period of time. While the score could increase over time, it could also decrease based on neglecting to make adjustments in the succession plan based on changing internal and external conditions.

Owner Characteristics and the Extensiveness of Business Succession Preparedness

Hypothesis 1.10 stated: The relationship between ownership characteristics and the extensiveness of business succession preparedness will be moderated by the generation of the business. The study showed that, overall, ownership characteristic variables were associated with the EBSP. The generation of the business was found to moderate the owner characteristics group associated with EBSP and explain additional variance in the model. Therefore, Hypothesis 1.10 was supported. The age of the primary business owner, household income of the primary business owner, intent to transfer the business entity, and intent to have family wealth managed by family members intergenerationally were all found to be significantly associated with EBSP.

In this study, the owner's intent to transfer the business entity contributed the most to the model ($\beta = 0.36$, $p < .05$), followed by intent to transfer wealth ($\beta = 0.20$, $p < .05$). These variables not only contributed the most to the group, but also to the final model. This is the first study in which intent of the family business owner to transfer the business entity and to transfer the wealth derived from the business has been measured as part of the Family Business Succession Model and specifically in relation to EBSP. The fact that intent contributed the most to the model means that the impact of intent should be studied further in order to more fully understand the resulting impact on succession outcomes.

When testing the Family Business Succession Model, intent to transfer wealth was the most important factor in explaining EBSP. Overall, 29.7% of respondents, when presented with potential business transfer options, responded that they were unsure how they would disposition

the business entity. However, 61.7% of those respondents felt that it was at least moderately important that the family work together intergenerationally to manage wealth. This may indicate that despite a desire to transfer the wealth, business owners are confused about how to disposition the actual entity or do not have confidence that the entity is the best investment for ongoing development of family wealth in the next generation. While many business owners desire to transfer the wealth derived from the family business, they may not want to transfer the business entity they currently manage. This means that business owners may desire to transfer cash proceeds or invest in alternative businesses, but may not envision the next generation running the current business entity. Understanding the reasons that business owners may not feel that transferring their business entity to family members is a desirable outcome may help business advisors derive more appropriate business transition strategies to help families maintain their wealth. It may also indicate that business advisors understanding a business owner's intent and educating them on business transition options may contribute to greater succession preparedness and potential success in family business transfers.

Although owner characteristics had an increasing generational moderating effect, it had previously been shown to have a diminishing generational moderating effect (Davis & Harveston, 1998) on the relationship between owner characteristics and EBSP. The discrepancy between these two studies may be due to the additional ownership characteristics measured (i.e., intent to transfer wealth and intent to transfer the business entity).

Participative leadership style was assessed as a variable under owner characteristics and not found to be associated with EBSP. This was a surprising result that may say more about the measure than the result. Although there is no research that directly addresses the impact of leadership style on family business corporate performance, Sorenson (2000) found that the

leadership style of the business owner significantly impacts the business culture. Like this study, the measurement of leadership style resulted from responses of the primary business owner.

A more robust analysis of the impact of the business owner's leadership style on EBSP should be considered due to the inherent bias when the business owner is the sole respondent answering questions about his/her leadership style. An improved measurement of the owner's leadership would include an assessment that allows for the perspective of other key management team members. This type of assessment provides an opportunity for others on the key management team to assess the leadership of the business owner, which would provide a more accurate measure of leadership style. This additional perspective would eliminate the bias that may result when a business owner answers questions in regards to his/her leadership style.

Enterprise Characteristics and the Extensiveness of Business Succession Preparedness

Hypothesis 2.11 stated: The relationship between enterprise characteristics and the extensiveness of business succession preparedness will be moderated by the generation of the business. Overall, the enterprise characteristic group was associated with EBSP and the generation of the business moderated these associations. Therefore, Hypothesis 2.11 was supported. The number of employees, business size, business revenue, business market value, and satisfaction with corporate performance were all positively and significantly associated with EBSP.

The title of organizational characteristics identified previously in the model (Davis & Harveston, 1998; Westhead, 2003) was altered to enterprise characteristics for purposes of this study. Often there is more than a single entity owned by the family, making the term enterprise more representative of what may be several business entities (Zellweger et al., 2011). Despite

potentially having multiple entities, respondents were asked to base responses on the answer for the most dominant business interest. Davis and Harveston (1998) did not acknowledge potential multiple entity families in their study.

Neither CEO tenure nor anticipated CEO tenure before retirement were found to be significant. However, anticipated CEO tenure was found to have borderline significance. This could indicate that when business owners have fewer years until they retire, they are more likely to have planned for the succession of the business. This may also indicate that while CEO tenure to date was not associated with EBSP, primary owners prepare more as their anticipated retirement nears. As a result, those consulting on this issue may have the greatest effect by helping primary owners focus on clear target retirement dates. Those whose retirement dates are in the next few years may have the greatest interest in preparing for succession.

The size of the family business is the summed total of business revenue, business book value, and business market value, which were highly correlated variables. It is not surprising that this was significantly associated with EBSP. Not only is more at stake to the family as the size of the business grows and complexity increases, but larger businesses may have more financial resources to deploy for business succession help from advisors. However, there may be a need to help smaller businesses develop succession plans to ensure that those business owners can eventually retire. Smaller businesses may be at the greatest risk of unsuccessful succession.

Satisfaction with corporate performance was found to be significantly associated with EBSP and was the greatest contributor to the group ($\beta = 0.30$, $p < .05$), potentially indicating that business owners who are not as satisfied with corporate performance are not preparing for succession. This was an important finding that may mean helping family businesses to better

understand their corporate performance (e.g., benchmarking corporate performance) will result in a higher willingness to actively plan for succession.

Interestingly, although business benchmarking was not found to be a significant association of EBSP, 67.2% of respondents indicated that they do not benchmark their business. This may indicate that business owners do not have the information at their disposal to adequately assess satisfaction with corporate performance. Although they are able to understand their corporate performance, they may not know how that performance compares to industry performance. How well they are performing in relation to their industry can have a large impact on valuation and cash flow. A poor performing business may be more difficult to pass to a successor.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) was part of the corporate performance scale. Measuring the extent of satisfaction with EBITDA improved the Corporate Performance Scale (i.e., Cronbach's coefficient alpha for the scale increased from ($\alpha = .79$) to ($\alpha = .92$)). This study was the first time this measure was used to help explain EBSP in family businesses. Multiples of EBITDA are a universal measure often used as a benchmark for valuation, although those multiples are unique by industry and shift based on economic conditions. Because EBITDA is a term business owners know and it allows performance comparison between businesses and industries, it was added to the corporate performance scale. Adjusted EBITDA represents a free cash flow measure and can be used to assess family members' ability to purchase the business with internal funding. EBITDA can often be multiplied by an industry multiplier, to obtain guidance in terms of current valuation. The multiplier can change based on economic conditions. Therefore, monitoring corporate

performance and EBITDA can enable family businesses to transfer business interests during times of lower valuation.

Business Formalizing Activities and the Extensiveness of Business Succession Preparedness

Hypothesis 3.15 stated: The relationship between business formalizing activities and the extensiveness of business succession preparedness will be moderated by the generation of the business. All business formality statements were found to be significantly associated with EBSP except having a corporate mission statement ($r = .05, p > .05$). In addition, the generation of the business was found to moderate the business formality group as an association of EBSP. Therefore, Hypothesis 3.15 was supported.

This study represented the most extensive overview of business formalizing in relation to EBSP found in the family business literature by addressing 14 elements of business formalizing. Of these statements, 12 resulted in two business formality subscales, which capture the extensiveness of business formality and can be used as measures in other studies (i.e., Business Formality Board subscale and Business Formality Corporate Strategy subscale).

Succession planning itself could be considered a business formalizing activity, so it is not surprising that EBSP is correlated with other business formalizing activities. However, this correlation is an important distinction because it means that succession preparation may not happen in the absence of other formalizing activities in the business. The result is that when business advisors attempt to help business owners create a succession plan without addressing other formalizing activities, the succession plan may be difficult to implement. Instead, it may be important to address creating an overall “formalizing culture” with the succession plan playing a central role.

The Business Formality Board scale items, consisting of having a corporate board, having the board meet quarterly, having an outside board member, and having the board require a succession plan, were all significantly associated with EBSP. Having a board was found to be the most important factor identified in the group ($\beta = 0.33, p < .05$). While previous research has provided limited results on the importance of boards in the context of business succession (Bammens et al., 2008; Huse, 1990; Lane et al., 2006; Ward & Handy, 1988), this research was clear that boards play a critical role in EBSP. However, how the board is structured (e.g., using an outside board member) and the board insisting on having a succession plan in place are critical components of EBSP. If a board is structured and working effectively as assessed by the Business Formality Board scale, it should be commissioned to address succession planning. If the board is commissioned to address succession, the board can play a critical role in ensuring businesses score high over time on the EBSP scale. This is important because it will likely improve successful succession outcomes.

Results of this study indicate that there is a low level of business formalizing taking place. Relatively low scores on the Board subscale ($M = 7.97, SD = 5.43$, range from 5 to 20) and the Corporate Strategy subscale ($M = 24.05, SD = 10.61$, range from 8 to 40) may indicate family businesses are missing opportunities to legitimize and grow their businesses, which is necessary to ensure successful succession. It is not surprising that low levels of business formalizing practices are associated with low levels of business succession preparedness. Because preparing for succession can be seen as a business formalizing activity, it would be surprising if a business had been diligent in regards to formalizing the business, but had neglected to prepare for business succession.

Family Influence and the Extensiveness of Business Succession Preparedness

Hypothesis 4.18 stated: The relationship between family influence and the extensiveness of business succession preparedness will be moderated by the generation of the business.

Overall, family influence was significantly associated with EBSP. In addition, the generation of the business was found to moderate the family influence group as an association of EBSP.

Therefore, Hypothesis 4.18 was supported.

The family culture component of the F-PEC Scale was found to be significantly associated with EBSP. In particular, several statements from the subscale were found to contribute to EBSP. The extent the family agrees on plans and policies, extent the business is a positive influence in the lives of family members, family member efforts are beyond expectation, and family members supporting decisions made in the business were items found to be significant in contributing to the model. Overall, subscale results indicate that family cultures have a high impact on the business ($M = 52.65$, $SD = 6.79$, range from 12 to 60). Assessing and understanding the family culture, or how family members view the business in relation to their family, will help business advisors better determine potential business transfer options (i.e., selling to a third party or keeping the business in the family).

In this study, the business generation moderating variable was defined by the youngest generation in the business, without regard to ownership or management. One important distinction identified in the study was that although ownership was not found to significantly contribute to EBSP, the generation that manages the business was found to be significantly associated. In addition, which generation is managing the business contributed second most to the group model ($\beta = 0.20$, $p < .05$). Consistent with previous studies (Davis & Harveston, 1998; Westhead, 2003), it was found that as later generations manage the business, EBSP increases.

Study results indicate that the generation that owns the business and the one that manages the business may treat succession differently and that it may be management, as opposed to owners, who are more proactive in ensuring succession preparedness. This is not surprising when one considers absentee family owners who are not involved in day-to-day decision making and business owners active in day-to-day operations who may have difficulty relinquishing control (Lansberg, 1988; Barach & Gantisky, 1995). This may also indicate that business advisors should not ignore management when creating business succession plans, regardless of whether management has an ownership stake. Management may not be stockholders, but they are stakeholders. As a result, engaging management may have a significant impact on the development of a successful succession plan. One of the reasons EBSP was found to be so low (e.g., $M = 3.13$, $SD = 2.65$, range from of 1 to 8) may be a result of advisors not being inclusive enough when it comes to who participates in the development of the succession plan.

Access to Capital and the Extensiveness of Business Succession Preparedness

Hypothesis 5.5 stated: The relationship between importance of access to capital and the extensiveness of business succession preparedness will be moderated by the generation of the business. Overall, access to capital was associated with EBSP. In addition, the generation of the business was found to moderate the access to capital group as an association of EBSP. Therefore, Hypothesis 5.5 was supported. Access to capital and family business reserves were both positively and significantly correlated with EBSP.

It is not surprising that access to capital plays a critical role in the extensiveness of business succession planning. Later generations tend to have greater access to capital as a result of running more established businesses that are larger and have greater cash flow, which is consistent with the literature (Poza, 1989; Davis & Harveston, 1998). Surprisingly, the only

significant source of that capital was from internal business reserves. This likely means that reinvestment happens as needed in the business and at the expense of owner distributions. Internal family reserves were not found to be significant. The fact that the sample represented well-established businesses may have impacted the lack of significance of business owners relying on personal family capital. As businesses become larger and have greater cash flows, family investments of personal capital may become less necessary and businesses have greater internal reserves (Poza, 1989). It was surprising that bank loans and lines of credit were not found to be significant. External credit was previously found to be significant, although not as important as family financial capital (Poza, 1989; Davis & Harveston, 1998). Further, formal succession plans were previously shown to be created in order to add business legitimacy in the eyes of lenders (Poza, 1989).

The results of this study may indicate that family businesses are not taking advantage of growth opportunities because they are not fully utilizing outside lines of credit. At the time of this study, businesses may not have seen growth opportunities that were worth taking on debt. In addition, credit may have been difficult to obtain due to financial institutions cutting back lending. The reasons why businesses did not use external credit were not clear as the study did not address these questions. However, it could be important to ascertain reasons external credit was not found to be significant, such as fear of debt, lack of credit availability, or excess business capital reserves. Ultimately, debt service may need to be used to fund a succession event, so understanding a business's access to capital and willingness to utilize that credit is important. Additionally, this survey was cross sectional and conducted in a stable economic period. Therefore, results may not reflect the extent external credit is relied upon during economic downturns.

External Environment and the Extensiveness of Business Succession Preparedness

Hypothesis 6.7 stated: The relationship between external environmental conditions and the extensiveness of business succession preparedness will be moderated by the generation of the business. When tested together, the external environment characteristics were found to be significantly associated with EBSP. The generation of the business was found to moderate the external environment group as an association of EBSP. Therefore, the external environment Hypothesis 6.7 was supported. However, the size of the metropolitan area of core business operations was the only external environmental variable found to be associated individually. This was consistent with the findings of Westhead (2003). It was not surprising that the metropolitan size was an important factor in EBSP and the greatest contributor to the model in the group ($\beta = 0.19, p < .05$). Businesses operating in larger metropolitan areas likely have greater access to professional services that can help them with their succession planning.

The economic environment during Westhead's (2003) study was not discussed. Anecdotally, the thought is that, during times of economic well being, it is easier for a business owner to focus on succession issues. However, during times of economic or industry downturn, attention shifts away from succession and turns toward survival. In this study, respondents were answering questions around the extent that economic turbulence affected their business succession planning at a time when there is relative economic stability and economic growth. It would be important to ascertain the extent that business owners prepare for succession during economic downturns. Doing so could enable a better understanding of the challenges and could result in alternative approaches for business advisors to approach succession to ensure that succession planning is not neglected during those times.

In this study, the impact of the tax environment on EBSP was analyzed and understanding the tax environment during the study is important because it may have impacted

the result. At the end of 2012, The Taxpayer Relief Act was passed, which created lower estate tax rates than would have resulted if Congress had not acted. If this Act had not passed, tax rates (i.e., income tax and estate tax) would have been much higher. The new Act increased the capital gain rate from 15% to 20%, increasing taxes paid in family business transfers. The act provides an individual applicable exclusion amount (i.e., amount that can be passed to individual beneficiaries without incurring estate tax) of \$5.25 million in 2013, increasing by inflation, with a 40% tax for amounts above this exemption amount. This means that a couple could potentially pass \$10.5 million before estate tax becomes an issue. There is an equivalent gift tax exemption that can be used during lifetime, which decreases the estate tax exemption simultaneously. In 2013, an individual can use a \$14,000 annual per person exclusion gift, which increases by inflation in \$500 increments. Everything above this amount on a per person basis decreases the amount of gift tax exemption available and a gift tax (informational) return is filed. Once the full exemption amount is exceeded, gifts larger than the annual exclusion amount will incur an immediate gift tax (Poza, 2010).

Part of successful succession planning involves ensuring there is enough liquidity to pay any estate taxes due upon the death of the business owner, resulting from having a business value that may exceed the exemption amount. In addition, strategies to transfer business shares to family members during lifetime may impact gift tax planning as well as income tax planning. There has been favorable tax law for business transfers since 2001. However, those tax provisions were under a sunset, creating uncertainty in what the ultimate tax law would be after 2012. As a result, study participants were asked the extent that tax law impacted their plans around business transition. Poza (2010) suggested that the tax law was a large motivation for succession planning and this is anecdotally considered to be true among family business

advisors. However, in this study the tax environment was not found to be significantly associated with EBSP. This could have resulted from the tax environment not being as significant as advisors believe as a motivation for succession planning. Another explanation is that the lack of significance was the result of the stable economic and tax environment that was prevalent during sampling.

The Generational Effect

A generational effect is said to exist when inclusion of the business generation influences the strength between two or more other variables by affecting the direction and strength of the relationship (Davis & Harveston, 1998). The expanded Family Business Succession Model was moderated by the variable business generation (e.g., 1st, 2nd, or 3rd+), represented by the youngest generation in the business, to determine the extent that the business generation added explanatory power to how independent variables were associated with EBSP. The six components of the model were shown to be associated with EBSP. Utilizing the business generation as a moderator increased the explanatory power of each model component and the model as a whole. This confirms the model established by Davis and Harveston (1998), expanded by Westhead (2003), and included in this study, which provides a basis for the model to be used by family business advisors to help family businesses increase succession preparedness.

Summary

The study results indicated that each group of the Family Business Succession Model (e.g., owner characteristics, enterprise characteristics, family influence, business formality, access to capital, and the external environment) had at least one significant variable associated with EBSP. In addition, when tested together, each group of variables was significantly associated with EBSP. The strongest influence of these groups on EBSP was owner

characteristics, and the weakest influence was, surprisingly, the external environmental characteristics group. The variables that contributed the most to the entire model were found to be the ownership characteristics of intent to transfer the business entity and intent to enable the next generation to manage wealth together as an economic unit. This signifies that helping family business owners clarify this intent may help increase EBSP. The measures assessing the impact of the external environment may be the most volatile measures of the study. How business owners respond can be dictated by the economic, regulatory, and tax environments at that point in time. The environment in which this study was conducted was one of recovery, economic stability, and positive GDP growth.

Limitations

In designing this study, there were several factors which were known in advance that affected the generalizability of results, including: (a) the location of respondents, (b) the type of respondents that responded to the survey, (c) the limitation of only obtaining a single response from each business enterprise, (d) the number of respondents, (e) the definition of family business for purposes of respondent inclusion, and (f) the scales utilized. These limitations are further addressed below.

Generalizability

The generalizability of results is limited for several reasons. First, although surveying was random, it was limited to Kansas, Missouri, and Illinois, which means results may not be consistent with a nationally representative sample. Second, targeted respondents were majority owners of family businesses. Although a primary owner may have significant perspective on business operations and family dynamics, owners may have their own biases. To minimize bias, ideally several perspectives should be obtained from each family enterprise. Third, respondents

acted voluntarily, resulting in a potential selection bias in which an owner who feels comfortable sharing information about his/her business because he/she is proud of the business may have been more likely to complete the survey. This self-selection bias may represent a more optimistic viewpoint than would be represented by the population.

Fourth, the sample was largely homogeneous, meaning viewpoints from different cultural backgrounds may not be fully represented in the survey results. Most of the sample reported their ancestry as Caucasian (96.1%, $n = 122$), while .8% ($n = 1$) identified themselves as African American, .8% ($n = 1$) identified themselves as Asian, and 2.4% ($n = 3$) identified themselves as Other. In addition, 9% of family business owners were women. This is in contrast to a national sample of businesses. According to the U.S. Census (2007), most business owners reported their ancestry as Caucasian (77.9%), while 7.1% identified themselves as African American, 5.7% identified themselves as Asian, 8.3% identified themselves as Hispanic, and 1% identified themselves as Other. In addition, 28.8% of business owners were women. While the sample demographics were different than the Census data, it is important to note that the Census data shown do not differentiate between family and nonfamily businesses. There is no national sample of businesses that are identified as family businesses based on the F-PEC scale. In addition, the national sample does not necessarily represent the demographics of Missouri, Kansas, and Illinois.

Fifth, the original sample was derived from businesses valued between \$1 million and \$100 million. As a result, responses may not represent the view of family businesses outside these value ranges. In addition, due to the survey being identified as a family business survey, some business owners may not have completed the survey because they do not consider themselves to be running family businesses. Owners could have reasoned that because they had

desires to sell the business, they did not fit the traditional definition of family business, although they would fit the definition for purposes of this study.

Measurements

Due to the limited data on business succession preparedness, a survey was developed and utilized in order to collect original data. The largest challenge with creating a survey is ensuring that respondents understand what is being asked and that questions are formatted in such a way that reliable measures can result. The types of measurements utilized could have impacted the findings. In order to increase the meaningfulness of responses, several previously validated scales were utilized based on their prior use in family business research. These scales were relatively simple and had good psychometric characteristics and included: (a) the Corporate Performance Scale (Naman & Slevin, 1993), (b) the Economic Turbulence Scale (Khandwalla, 1977), and (c) the F-PEC scale (Astrachan, Klein, & Smyrnios, 2002).

Several scales were developed as part of this study to operationalize study constructs. The EBSP scale, developed through a Delphi study, had excellent reliability ($\alpha = .87$). Construct validity resulted from experts consulted during the Delphi study and a Principal Component Analysis (PCA) that resulted in a single factor. It measures the extent that business owners have prepared the business for succession. Two business formality scales were also developed to specifically measure the extent of formalizing practices that had been created in the business. The Business Formality Board scale had excellent reliability ($\alpha = .87$) and the Business Formality Corporate Strategy scale had excellent reliability ($\alpha = .85$) as well. Construct validity resulted from a Principal Component Analysis (PCA) that resulted in two factors. These scales were developed from variables derived from Davis and Harveston (1998) and Westhead (2003) and may be limited as a result of being incomplete. While they are extensive measures of business

formalizing practices, they are not exhaustive. Psychometric data showed scale reliability and validity, but it does not mean that there may not be a future theoretical basis for adding additional variables that could potentially result in increased explanatory power for these scales.

Sample Size

Data were obtained by mailing 3,000 anonymous paper-pencil surveys in addition to a link to the survey online at SurveyMonkey to business owners in the states of Illinois, Missouri, and Kansas. The decision to limit the number of surveys to the three states chosen and a limited number of recipients was a budgetary constraint. A total of 170 (5.8%) surveys were returned. However, only 128 (4.4%) were useable based on fitting the criteria of being a family business. In addition, 110 (3.7%) of the surveys were returned undeliverable, indicating that the survey list had some flaws. However, the response rate was great enough to test the core model tenets.

Several factors likely impacted the response success rate. First, the survey was estimated to take anywhere from 15 to 25 minutes and this may have been a deterrent for busy owners to complete the survey. For respondents who used SurveyMonkey, a time clock showed that some respondents took less than 10 minutes and others took over an hour. For those who took over an hour, it is possible that they were multitasking while responding.

Second, the target respondent was a successful and established business owner. These respondents are often sent offers and are asked to take surveys by marketers to the extent that it can be overwhelming and as a result responding is avoided. While the survey letter articulated that this was an important university research project as opposed to a marketing ploy, it is possible that the survey still represented another of many requests that distract from business operations.

Third, the survey involved some very personal responses, including the sharing of personal and business information. Although the study respondents were ensured confidentiality, potential respondents may not have felt comfortable sharing that information. Several respondents, in fact, skipped the financial section. In addition, the survey was clearly from a Kansas State University student and potential respondents in Illinois and Missouri may have felt an allegiance to an alternative school and may have wondered why a Kansas State University student was soliciting information from them.

Implications for Practitioners

As reviewed in Chapter 2, family businesses are important to the U.S. economy and especially economic job growth. The Family Business Succession Model provides a framework for researchers and family business advisors who consult with family businesses and policy makers. The framework provides a basis to understand and interact with family businesses by providing resources that can help measure succession preparedness, business formalizing practices, and the family culture in regards to the business. In addition, the framework provides a basis to determine the business owner intent to transfer the business and have family work together intergenerationally to manage wealth in order to help the business owner achieve business goals. The purpose of this study was to increase the understanding of how owner characteristics, enterprise characteristics, business formality, family influence, access to capital, and external environmental factors impact the steps family businesses take to be prepared for a succession event. The model incorporates internal and external environmental conditions impacting EBSP.

In this study, family systems theory was integrated into the Family Business Succession Model to demonstrate the interdependency of the family system and business system. By

continuing to build on the model, there is additional explanation as to what drives successful family business succession preparation and how systems interaction influences those results (e.g., Figure 2.3). Family systems theory provides a framework for how the interactions of business enterprise, family, ownership, and external environmental systems create financial and economic results for the business and the family as a result of succession preparedness. Business advisors should work to recognize the impact of the business, ownership, and family systems on business formality, how capital is accessed, and how external environmental issues are addressed to further succession goals. Recognizing and understanding the interactions of these systems will enable business advisors to provide better advice and may result in higher levels of succession preparedness.

The scales developed to measure EBSP and business formality go beyond perceptions of succession planning to measure actual behavior. Practitioner interventions and consulting could address each significant factor (i.e., owner characteristics, enterprise characteristics, business formality, family influence, access to resources, and external environmental characteristics) in the model by assessing the extent that these factors are impacting succession and helping family businesses derive action plans to address factors in a way that enhances succession preparedness. The scales developed to measure EBSP and business formality are examples of specific measures that could be used to identify and address gaps in succession preparedness.

An important finding of this study was that whether a family business benchmarks financial results against industry peers was not found to be significant or associated with EBSP. Furthermore, 67% of respondents reported they do not benchmark their financial results. This indicates that most respondents do not know how they are performing on key ratios in comparison to similar businesses in the industry. The implication of this is that businesses may

know whether they are making money or not, but have little knowledge of how this contrasts to other businesses of their size and in their industry and as a result may not be gauging or understanding the value of the business. This is important because successful business succession may be dependent on the business value and whether the cash flow key ratios can sustain that value over the long-term. When there is a performance gap in comparison with the industry, the necessary steps to make changes should be implemented long before the anticipated succession event.

The business owner's estate and retirement plans are often highly dependent on the value of their business. Respondents indicated that between 50 and 74% of their net worth was tied up in the family business. This is particularly important when one considers that the average age of respondents was 58.5 years. These respondents were approaching retirement age and may desire to retire at some point. However, the successful transition to retirement is dependent on understanding what is needed to fully fund retirement and matching that up with the value and cash flow of business assets, including clearly understanding the business value and how that value can become a retirement sustaining cash flow.

Despite approaching retirement ages, succession preparedness was still found to be low. The EBSP scale overall mean score was 3.13 on a scale of one to eight, indicating there are many concrete actions that had not been taken in regards to succession preparedness, but should be taken. The EBSP scale represents those actions including: (a) choosing a successor, (b) making the successor aware, (c) helping the successor become ready to step in if unexpectedly necessary, (d) making family members aware of the succession plan, (e) having a development plan for the successor, (f) having a succession time frame, (g) writing the ownership succession plan, and (h) ensuring the CEO is increasingly delegating tasks that enable him/her to develop the successor.

Per the scale, the process of preparing for succession involves a joint partnership and includes responsibilities for both the CEO and anticipated successor(s).

As a researcher who works extensively with family businesses, one of the items that stands out as a barrier to success is the poor communication that can take place in the business between family members. There may be an inherent response bias when asking family business owners about the communication practices in the family and the business due to lack of awareness of how others in the business see issues. The measure of success is often the extent that the businesses are creating a profit. However, this may come at the expense of family relationships. Because of the overlap between the family and business relationships, there is added complexity in having open and honest conversation and resentment can develop, as family members seek to be treated the same in the business as they are in the family. The family business owners who tend to have the highest level of self awareness have regularly scheduled business meetings that are an open space for family members involved in the business to have difficult conversations on business issues. These families also tend to have regularly scheduled family meetings that involve all family members, to create a broader sense of boundaries, unity, and family mission. These families create governance structures, such as a family constitution to articulate how they will interact and the specific boundaries between the family and the business. Finally, the most successful family businesses tend to utilize outside board members in order to gain added expertise from outside the business, which allows for a broader and less insulated perspective on business strategic decisions. As shown in this study, few family businesses reach these levels of formality and the ones that do typically do so after the first generation.

Future Directions

This study successfully extended the Family Business Succession Model (Davis & Harveston, 1998; Westhead, 2003). However, there are significant additions that could still be made to the model, which would make it more comprehensive and functional for business advisors and policy makers. Specifically, incorporating contingency planning, conducting a deeper analysis of generation effect, doing a more comprehensive view of the owner leadership style effect on succession preparedness, and developing additional scales (i.e., transition intent, benchmarking, additional formality, how credit is utilized) could add to the model. In addition, terminology widely used by family business consultants could be more widely used in the succession literature (i.e., EBITDA).

A new scale measuring the extensiveness of business succession preparedness has been developed and this scale should be validated with other samples. This scale addresses the process of preparing a successor and communicating the plan, but does not address contingency planning, which is also a critical element of succession preparedness. Contingency planning would answer the question of what happens if a succession participant dies prematurely, becomes disabled, or for some other reason is unable to take on the expected role or serve as a mentor.

This study only determined the overall moderating generation effect in each group, based on the youngest generation in the business. For example, if a business owner had two children in the business, but no grandchildren, the business was considered a second generation family business even though the younger family members may not have had a management or ownership stake. While the moderating effect addresses the overall generation effect by group (i.e., ownership characteristics, enterprise characteristics, business formality, family influence, access to capital, and external environmental conditions), it does not address the extent and

direction of moderation on each variable by generation. As a result, it is possible that although this study has shown an overall moderating effect over three generations, that the second generation may in fact be moderating differently, if analyzed separately. With a larger sample, the generation effect on each variable could be confirmed separately for each variable, which would provide a greater perspective than assessing the group generation effect. Understanding how study variables are treated uniquely by each generation could help business advisors know how to approach family members differently based on their generation in the family business.

Participative leadership style was assessed as a variable under owner characteristics and not found to contribute to the model. It is anticipated that there are various leadership styles in family businesses and that those leadership styles may have different impacts on EBSP. However, this study did not show this, which may say more about the measure than the result. A more robust analysis of leadership style's impact on EBSP should be considered, including an assessment that takes into account the owner's leadership from the perspective of all management team members. This type of assessment allows leadership style to be assessed by key management individuals, rather than having the business owner report on his/her own style. As a result, it would likely be a more accurate leadership style reflection and minimize bias that may result from self analysis.

Leadership style is important because it has been shown to influence business culture (Sorenson, 2000). Leadership characteristics should improve decision quality, increase the extent of family members' understanding of the business, and develop future family member leader decision-making skills (Bass, 1990; Yukl, 2010). However, leadership style of family business owners has not been specifically tied to EBSP. If leadership style impacts whether a family business is preparing for succession, a family business advisor addressing it at the beginning of

an engagement may increase the likelihood that appropriate succession preparedness strategies, processes, and techniques will be implemented over time.

Helping family businesses to better understand and develop satisfaction with corporate performance (e.g., benchmarking) may help motivate them to more actively plan for succession. Although business benchmarking was not found to have a significant association with EBSP in this study, whether participants benchmark corporate performance was assessed based on a single question. A scale could be developed to better measure the extent that family businesses benchmark their results and use them to drive corporate performance. A benchmarking scale could act as an additional business formality measurement.

Widely used business terminology known to business owners could be better utilized in the family business literature. For example, the term EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is a universal measure often used as a benchmark for valuation, although those multiples are unique by industry and shift based on economic conditions. Because EBITDA allows performance comparison between businesses and industries, it was added to the Corporate Performance Scale. Adjusted EBITDA represents a free cash flow measure and can be used to indicate the ability of the value of a business to be purchased by family members through internal funding. Utilizing widespread measures could help in understanding the financial complexities in transferring business ownership, while also securing the retirement security of departing owners.

Although preparing for succession is actually a business formalizing activity, business succession was measured separately from business formality in this study. Business owners who tend to engage in significant formalizing practices in other areas of their business also tend to have more formalized succession preparedness. Further research is needed to validate the

business formality scales and business formality as a concept should be further explored. For example, additional formalizing activities could be incorporated into the business formality subscales, such as: (a) appropriately maintaining corporate records, (b) asset protection (entity selection and insurance); (c) accounting systems, (d) appropriate HR function, (e) use of analytics, and (f) benchmarking. While the business formalizing activities measured in this study were extensive, they were not exhaustive and the list is incomplete. Expanding the business formalizing activities measured could help researchers and family business advisors have a clearer understanding of the impact of business formalizing practices on succession preparedness.

A view of family business succession preparedness from the perspective of nonfamily management would be an area of research that would be a valuable addition to the literature. One of the limitations in this study and most family business research is that data are gathered solely from the business owner. As a result, the information may carry biases. Other individuals in the business who are very involved in operations may view the business and succession plan differently. Capturing those different viewpoints would help increase understanding of succession preparedness.

The only significant source of capital was from internal business reserves. This likely means that reinvestment happens as needed in the business, at the expense of owner distributions. It was surprising that bank loans and lines of credit were not found to be significant and it may indicate missed opportunities in family businesses to take advantage of new business opportunities because of a fear of taking on external debt. Additional research should be conducted to assess how family businesses use outside debt and maintain appropriate debt to equity ratios. The viability of businesses and the ability to transfer businesses intergenerationally

is dependent on sufficient financial performance. Access to capital affects financial performance and was determined to be significantly associated with EBSP, which means understanding the extent of capital access and how it is utilized could potentially help in the understanding of succession preparedness.

Conclusion

The objective of this study was to test the Family Business Succession Model, which is based in systems theory. Results of this study add to the literature in family business in several ways. First, using a systems theory framework, a new scale was developed to measure the extensiveness of business succession preparedness (EBSP) in family businesses. Second, new subscales were developed to measure business formality taking place in family businesses. Business formality was found to be low and was associated with EBSP. As a result, creating a “formalizing culture” was determined to be an important part of preparing for succession. Third, intent to transfer wealth intergenerationally was associated with EBSP, as well as intent to transfer the business entity. This means that understanding the intent of the business owner is an important part of understanding the ownership system and may help in identifying potential solutions around succession planning. Fourth, a corporate board was found to be associated with EBSP, indicating that having a board, including an outside board member, the board meeting at least quarterly, and commissioning the board to monitor the succession plan is an important part of succession planning. Fifth, satisfaction with corporate performance was associated with EBSP, which means that succession planning may have better results if corporate performance satisfaction is addressed before succession. Sixth, previously used scales were further validated and some results found in the literature were also supported (e.g., the generational effect, importance of capital access, need for business formality). Study results increase the validity of

the Family Business Succession Model and provide answers that may help other researchers, family business advisors, and policy makers provide comprehensive advice on the issue of succession in family businesses.

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Appendix A - Invitation to Respond to Survey

929 Gardenia St
Fort Mill, SC 29708
15 March 2013

Re: Business Succession Research Study

Dear Valued Business Owner:

My name is Brett Coffman and I am a Kansas State University PhD student in the process of writing a dissertation. I have chosen to obtain original data by randomly surveying businesses in Kansas, Missouri, and Illinois in order to assess succession planning preparedness factors. Your business was selected randomly for participation in this ground breaking and confidential research study.

As you are aware, only a small percentage of businesses survive into subsequent generations. I want to build a body of research that will help other people like you improve those percentages. Small businesses are the engine of growth for our nation and they fail to survive intergenerationally far too often. By participating through this easy to complete 15-20 minute survey, you will ultimately be helping other people like you achieve the same level of success that you have achieved and will be supporting the work of a PhD student.

This is not a marketing survey, which means none of the information obtained is sold or used for marketing purposes. Data obtained is confidential and anonymous, as is required by the Internal Review Board (IRB) of Kansas State University. All of the information you provide will be used only for research purposes and nobody is compensated for results. Failure to provide all of the requested answers will not in any way adversely affect you. However, I do appreciate your effort to answer all of the questions.

I would appreciate you completing the enclosed survey and returning it to us within 2 weeks of receipt or by April 10th (whichever comes later) in the postage paid envelope or by email. Also, rather than a paper version, the survey can be completed at the following Web Address: <https://www.surveymonkey.com/s/KStateBusinessSuccessionSurvey>. If you did not receive the survey and desire to complete a paper version, please email me (bcoffman@ksu.edu) or call (704-607-7980) and I will send another one to you immediately.

I recognize that your time is very valuable! As a result of completing and returning the survey, you can be entered into an April 2013 random drawing for a new I-Pad. In addition, you can receive final survey results. To be in the drawing and receive results, simply send an email with a name indicating that you participated to the address above. The study completion is estimated to be December 2013. Your participation is deeply appreciated!

Regards,

Brett Coffman
PhD Student and Principal Researcher

Enclosures: Survey and postage paid return envelope

Appendix B - Survey

The Family Business Succession Model: An Exploratory Analysis of Factors Impacting Family Business Succession Preparedness

Survey

Brett Coffman, MBA, CFBA, CFP®, EA

PhD. Candidate, Kansas State University

929 Gardenia St.
Fort Mill, SC 29708
bcoffman@ksu.edu

Dear Survey Participant:

Thank you for taking the time to complete this important questionnaire to further research on the most important factors that affect business succession preparedness.

The time needed to complete this survey varies according to individual circumstances. However, the average time is estimated to be 15 to 20 minutes. If you have comments regarding this survey, you may write to the principal investigator listed on the front page.

Confidentiality Statement

Survey responses are anonymous. All of the information you provide will be treated as confidential and used only for research or statistical purposes by the principal investigators. Your response is voluntary and failure to provide some or all of the requested information will not in any way adversely affect you. However, we do appreciate your effort to answer all of the questions.

Instructions:

- You may either use a Pen or a Pencil
- Answers should be based on your opinions, experiences, attitudes, and available information.
- If you need to change an answer, please make sure your old answer is either completely erased or clearly marked out.
- Once the survey is completed, please return it in the enclosed postage paid envelope or to bcoffman@ksu.edu.

Thank you so much for your help! You are making a valuable contribution to research that will help identify the most important factors in business owners successfully transferring their business(es)

I. PRIMARY OWNER LEADERSHIP

Please identify the level you agree with the following statements, with values ranging from "1" (strongly disagree) to "7" (strongly agree). **Please circle one.**

The owner of the business:

- 1) makes employees proud to be associated with him/her (1 2 3 4 5 6 7)
- 2) is always fair with subordinates (1 2 3 4 5 6 7)
- 3) inspires loyalty (1 2 3 4 5 6 7)
- 4) is a model for employees to follow (1 2 3 4 5 6 7)
- 5) encourages subordinates to participate in important decisions (1 2 3 4 5 6 7)
- 6) keeps informed about the way subordinates think and feel about things (1 2 3 4 5 6 7)
- 7) encourages employees to speak up when they disagree about decisions (1 2 3 4 5 6 7)
- 8) helps subordinates with personal problems (1 2 3 4 5 6 7)
- 9) is very knowledgeable in this profession (1 2 3 4 5 6 7)
- 10) is expert in his/her own profession (1 2 3 4 5 6 7)
- 11) leaves employees alone to work (1 2 3 4 5 6 7)
- 12) transmits a sense of mission to employees (1 2 3 4 5 6 7)
- 13) sometimes manipulates employees (1 2 3 4 5 6 7)
- 14) is very dominating (1 2 3 4 5 6 7)
- 15) retains the authority to make almost all decisions (1 2 3 4 5 6 7)
- 16) shows great insight about doing his/her job (1 2 3 4 5 6 7)
- 17) maintains clear control over the business (1 2 3 4 5 6 7)
- 18) provides goals and gives employees freedom to achieve them (1 2 3 4 5 6 7)

19) is very directive

(1 2 3 4 5 6 7)

II. BUSINESS DEMOGRAPHICS

CEO Tenure:

As of 12/31/2012, how long has the current CEO been appointed?

- (1) 0-4 years (2) 5-8 years (3) 9-12 years
(4) 13-16 years (5) 17-20 years (6) more than 20 years

How long is it anticipated that the current CEO will act in this capacity before retiring?

- (1) 0-2 years (2) 3-4 years (3) 5-6 years
(4) 7-8 years (5) 9-10 years (6) more than 10 years

Age of the Business (oldest entity):

- (1) 0-9 years (2) 10-29 years (3) 30-49 years
(4) 50-69 years (5) 70-89 years (6) 90 years +

Business Sector (classification):

- (1) Mining (2) Construction (3) Manufacturing (4) Transportation
(5) Wholesale Distributors (6) Retail (7) Services (8) Finance, insurance, and real estate
(9) Agriculture (10) Other

Number of Employees:

- (1) 0-24 (2) 24-49 (3) 50-74 (4) 75-99 (5) 100+

Generation of the business (youngest generation in the business):

- (1) 1st (2) 2nd (3) 3rd+

Business Life Cycle (of your core business):

- (1) Start-up (2) Rapid Growth (3) Growth (4) Maturity (5) Decline

Annual Business Gross Revenue (including related subsidiaries):

- (1) \$1-\$4.99mm rev (2) \$5-\$9.99mm rev (3) \$10-\$19.99mm rev
 (4) \$20-\$49.99mm rev (5) \$50-\$99.99mm rev (6) \$100mm+ rev

Approximate Business Book Value:

- (1) \$1-\$4.99mm (2) \$5-\$9.99mm (3) \$10-\$19.99mm
 (4) \$20-\$49.99mm (5) \$50-\$99.99mm (6) \$100mm+

Approximate Business Market Value:

- (1) \$1-\$4.99mm (2) \$5-\$9.99mm (3) \$10-\$19.99mm
 (4) \$20-\$49.99mm (5) \$50-\$99.99mm (6) \$100mm+

Growth Strategy:

- (1) Acquisition (2) Heavy marketing (3) Word of mouth (4) Other

Ultimate Most Likely Core Business Disposition:

- (1) Sell the business to a family member(s)
 (2) Sell the business to one or more key employees
 (3) Sell to all employees using an Employee Stock Ownership Plan (ESOP)
 (4) Sell to nonfamily co-owners
 (5) Sell to an outside third party
 (6) Engage in an Initial Public Offering
 (7) Retain ownership but become a passive owner
 (8) Liquidate

Corporate Performance

*Please identify the level of importance you place on the following variables in measuring whether the business is achieving financial goals, with values ranging from "1" (very little importance), "3" (moderate importance), to "5" (extreme importance). **Please circle one.***

- 1) Sales revenue level (1 2 3 4 5)
 2) Sales revenue growth rate (1 2 3 4 5)
 3) Cash flow (1 2 3 4 5)
 4) Return on shareholder equity (1 2 3 4 5)
 5) Gross profit margin (1 2 3 4 5)
 6) Net profits from operations (1 2 3 4 5)

- 7) EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) (1 2 3 4 5)

*Please rate how satisfied you are with the performance of your business on a scale of "1" (low degree of satisfaction) to "5" (high degree of satisfaction). **Please circle one.***

- 1) Sales revenue level (1 2 3 4 5)
- 2) Sales revenue growth rate (1 2 3 4 5)
- 3) Cash flow (1 2 3 4 5)
- 4) Return on shareholder equity (1 2 3 4 5)
- 5) Gross profit margin (1 2 3 4 5)
- 6) Net profits from operations (1 2 3 4 5)
- 7) EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) (1 2 3 4 5)

III. BUSINESS FORMALITY

*Please identify the level you agree with the following statements, with values ranging from "1" (completely disagree) to "5" (completely agree). **Please circle one.***

- 1) There are up to date written job descriptions (1 2 3 4 5)
- 2) There are fixed compensation plans (1 2 3 4 5)
- 3) There is a formal employee review process (1 2 3 4 5)
- 4) There is a board (formal or advisory) (1 2 3 4 5)
- 5) Regular quarterly board meetings are held (1 2 3 4 5)
- 6) There is at least one outside board member (1 2 3 4 5)
- 7) The board insists on a business succession plan (1 2 3 4 5)
- 8) There is a written company mission statement (1 2 3 4 5)
- 9) The business has an up to date strategic plan (1 2 3 4 5)

- 10) The business has an up to date organizational chart (1 2 3 4 5)
- 11) The business has an employee career path (1 2 3 4 5)
- 12) The business has an up to date employee manual (1 2 3 4 5)
- 13) The business has a key management development plan (1 2 3 4 5)
- 14) The business has an up to date buy/sell agreement (1 2 3 4 5)

IV. BUSINESS SUCCESSION PLANNING

- 1) Has a successor been chosen who will assume operating control of your business (1) yes (2) no
- 2) Has a successor not been considered? (1) yes (2) no
- 3) Has just one possible successor been considered? (1) yes (2) no
- 4) Have several potential successors been considered? (1) yes (2) no
- 5) Have you informed the successor of your choice? (1) yes (2) no
- 6) Have you informed others? (1) yes (2) no
- 7) There is currently a written ownership succession plan (1) yes (2) no
- 8) A successor has been chosen (1) yes (2) no
- 9) The ownership succession plan includes a time frame (1) yes (2) no
- 10) The successor has been made aware of your decision (1) yes (2) no
- 11) The CEO is increasingly delegating tasks that enable him/her to develop the successor (1) yes (2) no
- 12) The successor is ready to step in if unexpectedly required (1) yes (2) no
- 13) Family members inside the business are aware of the ownership succession plan (1) yes (2) no
- 14) There is an active development plan for the next generation successor(1) yes (2) no

V. FAMILY INFLUENCE

Definitions:

- *Family* is defined as a group of persons including those who are either offspring of a couple (no matter what generation) and their in-laws as well as their legally adopted children.
- *Ownership* means ownership of stock or company capital. When the percentage of voting rights differs from percentage of ownership, please indicate voting rights.
- *Management Board* refers to the company Board that manages or runs an entity(ies).

1) Please indicate the proportion of share ownership (of core business operation) held by related family members (by adoption, marriage, or blood)

- (1) Less than 20%
- (2) 20-39%
- (3) 40-59%
- (4) 60-79%
- (5) 80-100%

2) Are shares held in a holding company or similar entity (e.g., trust)? (1) yes (2) no

3) If YES, please indicate the proportion of ownership:

(a) Main company owned by:

- (i) direct family ownership: _____%
- (ii) direct nonfamily: _____% ownership: _____%
- (iii) holding company: _____%
- (b) Holding company owned by:
 - (i) family ownership: _____%
 - (ii) nonfamily ownership: _____%
 - (iii) 2nd holding company: _____%
- (c) 2nd holding company owned by:
 - (i) family ownership: _____%

4) Does the business have a Governance Board? (1) yes (2) no

5) If YES:

- (a) How many Board members does it comprise? _____
- (b) How many Board members are family members? _____
- (c) How many nonfamily (external) members nominated by the family are on the Board? _____

6) Does the business have a Management Board? (1) yes (2) no

7) If YES:

- (a) How many persons does it comprise? _____
- (b) How many management Board members are family members? _____
- (c) How many nonfamily Board members are chosen through them? _____

Definitions:

- The founding generation is viewed as the first generation.
- Active family members involve those individual who contribute substantially to the business. These family members might hold official positions in the business as shareholders, board members, or employees.

1) Which generation primarily owns the core business?

- (1) First generation
- (2) Second Generation
- (3) Third Generation+

2) Which generation manages the business?

- (1) First generation
- (2) Second Generation
- (3) Third Generation+

3) What generation is active on the Governance Board?

- (1) First generation
- (2) Second Generation
- (3) Third Generation+

4) How many family members participate actively in the business? _____

5) How many family members do not participate actively in the business but are interested? _____

6) How many family members are not (yet) interested at all, but may become interested? _

*Please identify the level you agree with the following statements, with values ranging from "1" (strongly disagree) to "5" (strongly agree). **Please circle one.***

1) Your family has influence on your business (1 2 3 4 5)

2) Your family members share similar values (1 2 3 4 5)

3) Your family and business share similar values (1 2 3 4 5)

4) Family members support the family business in discussions with friends, employees, and other family members (1 2 3 4 5)

5) Family members feel loyalty to the family business (1 2 3 4 5)

6) Family members are proud to tell others that we are part of the family business (1 2 3 4 5)

7) There is so much to be gained by participating with the (1 2 3 4 5)

family business on a long-term basis

- 8) Family members agree with the family business goals, plans, and policies (1 2 3 4 5)
- 9) Family members really care about the fate of the family business (1 2 3 4 5)
- 10) Deciding to be involved with the family business has a positive influence on my life (1 2 3 4 5)
- 11) I understand and support my family's decisions regarding the future of the family business (1 2 3 4 5)
- 12) Family members are willing to put in a great deal of effort beyond that normally expected to help the family business be successful (1 2 3 4 5)

Spousal Involvement in the Business (if married, otherwise move to next section):

- I am currently married (1) yes (2) no
- The primary/majority owner spouse works in the business (1) yes (2) no

What is the average weekly number of hours your spouse works in the business?

- (1) 0-19 hours
(2) 20-29 hours
(3) 30-39 hours
(4) 40+ hours

What is the level of influence your spouse has over your succession plan?

- (1) None
(2)
(3) Moderate
(4)
(5) High

VI. ACCESS TO CAPITAL

*Please identify the level you agree with the following statements, with values ranging from "1" (poor) to "5" (excellent). **Please circle one.***

- 1) How would you rate access to capital necessary for your (1 2 3 4 5)

business?

*Please identify the level you agree with the following statements, with values ranging from "1" (not important) to "5" (extremely important). **Please circle one.***

- 2) How important is access to family capital? (1 2 3 4 5)
- 3) How important is access to internal business reserves? (1 2 3 4 5)
- 4) How important is access to bank loans or external lines of credit (1 2 3 4 5)

VII. EXTERNAL ENVIRONMENT

Metropolitan Area Population Size (of core business location):

- (1) Large City or suburb of (population > 250,000)
- (2) Midsize City or suburb of (25,000-250,000)
- (3) Large Town (25,000-250,000) no suburbs
- (4) Small Town (2,500-25,000)
- (5) Rural (less than 2,500)

Metropolitan Area Growth Prospects (of core business location):

- (1) Sharp decline
- (2) Decline
- (3) Stable
- (4) Growth
- (5) High Growth

Industry Life Cycle (of core business):

- (1) Start-up (2) Rapid Growth (3) Growth (4) Maturity (5) Decline

Tax and Regulatory Environment:

*Please identify the level you agree with the following statements, with values ranging from "1" (strongly disagree) to "5" (strongly agree). **Please circle one.***

- 1) Uncertainty in the current tax environment is a motivation for succession planning. (1 2 3 4 5)
- 2) I am in a regulated industry that requires a business succession plan. (1 2 3 4 5)

Economic Turbulence:

Please identify the level you agree with the following statements, with values ranging from "1" (strongly disagree) to "5" (strongly agree). **Please circle one.**

- 1) The rate of product/service obsolescence in our principal industry is very high (1 2 3 4 5)
- 2) Actions of competitors are unpredictable (1 2 3 4 5)
- 3) Our business unit must frequently change its marketing practices (e.g., semi- annually) (1 2 3 4 5)
- 4) Demand and consumer tastes are almost unpredictable (1 2 3 4 5)
- 5) The modes of production/service technology change often and in a major ways (1 2 3 4 5)
- 6) A very risky, a false step can lead to the business's undoing (1 2 3 4 5)
- 7) We are in a dominating environment in which my business's initiatives count for very little against the tremendous competitive, political or technological forces (1 2 3 4 5)
- 8) It is very stressful, exacting, hostile; and hard to keep afloat (1 2 3 4 5)

VIII. PRIMARY OWNER DEMOGRAPHICS

Age: _____

Job Title: _____

Gender:

- (1) Male
- (2) Female

Education Level (Check One):

- (1) Some HS (2) HS Graduate (3) Some College (4) Associates Degree
- (5) Bachelors Degree (6) Masters Degree (7) Doctoral Degree

Race/Ethnicity:

- (1) African American
- (2) Asian
- (3) Caucasian
- (4) Hispanic

- (5) Pacific Islander
- (6) Other

Marital Status:

- (1) Married (2) Divorced (3) Separated (4) Widowed (5) Single

Income and Net Worth:

What is the primary owner's total annual household income?

- (1) less than \$100,000 (2) \$100,000-\$499,999 (3) \$500,000-\$999,999
- (4) \$1 million or more

What percentage of the owner's household income is derived from the business(es)?

- (1) under 25% (2) 25-49% (3) 50-74% (4) 75% or more

What percentage of the owner's net worth is represented in the business(es)?

- (1) under 25% (2) 25-49% (3) 50-74% (4) 75% or more

Intention to Have Wealth Managed by Family Intergenerationally:

Please identify the level of importance you place on the wealth resulting from your business(es) continuing to be managed by family members together intergenerationally, with values ranging from "1" (very little importance), "3" (moderate importance), to "5" (extremely important).

Please circle one.

To what extent is it important to you that the next generation (1 2 3 4 5) continue to manage family wealth derived from the business(es) together?

It is my intention to keep the business in the family for another generation:

- (1) Yes
- (2) No, there is not a "next generation"
- (3) No, there are potential members, but there is not family interest
- (4) No, the business must be sold to a 3rd party to generate sufficient retirement income
- (5) No, the business will be sold to nonfamily member employees
- (6) Unsure

Religiosity:

Please identify the level of importance you place on your religious practice, with values ranging from "1" (not important) to "5" (extremely important).

I place a great deal of importance on living a religious faith (1 2 3 4 5)

Appendix C - Follow-Up Post Card

Recently, you received *The Business Succession Research Survey*. Based on certain business size parameters, you were selected randomly for participation in this ground breaking and confidential research study. By completing this survey you are helping advance the area of family business research, helping increase the likelihood of successful business succession for other successful people like you, and you will also be supporting the work of a PhD student.

THANK YOU, if you have already completed the survey. **If you have not, this is a reminder to please complete the survey and return it to us by April 24th or within 2 weeks of receipt of this postcard (whichever comes later).** Also, rather than a paper version, the survey can be completed at the following URL:

<https://www.surveymonkey.com/s/KStateBusinessSuccessionSurvey> If you did not receive the survey and desire to complete a paper version, please email me (bcoffman@ksu.edu) or call (704-607-7980) and I will get another one in the mail to you immediately.

We recognize that your time is very valuable! Remember that you can enter into a drawing for an I-pad when you complete the survey. In addition, you can receive final survey results by forwarding an email address. Your participation is deeply appreciated!

Regards,
Brett Coffman
Ph.D. Student and Principal Researcher

Appendix D - Supplemental Analysis

Owner Characteristics

The relationship between ownership characteristics and the extensiveness of business succession preparedness was analyzed using ordinary least squares regression to determine the extent that ownership characteristics were associated with the extensiveness of business succession preparedness. The multiple regression model was significant and produced $R^2 = .29$ $F(9, 118) = 6.78, p < .01$, indicating that ownership characteristics were significant and were associated with the extensiveness of business succession preparedness. The hypothesis was confirmed. Ownership characteristics explained approximately 29% of the variance for the extensiveness of business succession preparedness.

The standard beta estimates of each variable were measured within the group to determine their respective value to the group model. Within the owner characteristics group, the owner's intent to transfer the business entity contributed the most to the model ($\beta = 0.36$), followed by intent to transfer wealth ($\beta = 0.20$), and the owner's household income ($\beta = 0.19$).

Table D.1 Summary of Regression Analysis for Owner Characteristic Variables Association with EBSF

Variable	B	SE B	β	ρ
OwnerAge	.01	.02	.04	.59
OwnerEducation	.25	.16	.12	.12
OwnerMaritalStatus	1.05	.62	.13	.09
OwnerHHIncTOT	.51	.22	.19	.02
OwnerHHIncBUS	.17	.29	.05	.56
OwnerNWBUS	.11	.22	.04	.63
MultigenWealthIntent	.37	.15	.20	.02
BusinFamIntent	-.43	.10	-.36	.00
OwnerPartLeader	.05	.07	.06	.42

Enterprise Characteristics

The relationship between enterprise characteristics and the extensiveness of business succession preparedness was analyzed using ordinary least squares regression to determine the extent that enterprise characteristics were associated with the extensiveness of business succession preparedness. As a result of the high correlation between the number of employees, gross revenue, market value, and book value, these four variables were summed to represent business size. The regression model was significant and produced $R^2 = .12$ $F(6, 120) = 3.83$, $p < .01$, indicating that enterprise characteristics were significant and were associated with the extensiveness of business succession preparedness. Enterprise characteristics explained approximately 12% of the variance for the extensiveness of business succession preparedness.

The standard beta estimates of each variable were measured in the group to determine their respective value to the group model. Within the enterprise characteristics group, corporate performance contributed the most to the model ($\beta = 0.30$), followed by business size ($\beta = 0.17$), and anticipated CEO tenure ($\beta = -0.13$).

Table D.2 Summary of Regression Analysis for Enterprise Characteristic Variables Association with Ebsp

Variable	B	SE B	β	ρ
CEOTenure	.04	.13	.03	.77
CEOYearstoRetire	-.21	.14	-.13	.14
BusinessAge	.22	.19	.10	.25
BusinessSize	.14	.07	.17	.05
BusLifeCycle	.25	.38	.06	.52
Corporate Performance	.13	.04	.30	.00

Business Formality

The relationship between business formalizing activities and the extensiveness of business succession preparedness was analyzed using ordinary least squares regression to determine the extent that business formalizing activities were associated with the extensiveness of business succession preparedness. The multiple regression model produced $R^2 = .30$ $F(14, 113) = 3.44$, $p < .01$, indicating that business formalizing activities were significant and were associated with the extensiveness of business succession preparedness. Business formalizing activities explained approximately 30% of the variance for the extensiveness of business succession preparedness.

The standard beta estimates of each variable were measured within the group to determine their respective value to the group model. Within the business formalizing activity group, the board insisting on a succession plan contributed the most to the model ($\beta = 0.33$), followed by the key management development plan ($\beta = 0.30$), quarterly board meetings taking place ($\beta = 0.16$), and the use of an outside board member ($\beta = 0.15$).

Table D.3 Summary of Regression Analysis for Business Formality Variables Association with EBSP

Variable	B	SE B	β	ρ
JobDescriptions	-.03	.24	-.01	.92
FixedCompensationPlans	.15	.23	.07	.52
FormalEmployeeReview	-.07	.26	-.03	.80
Board	.03	.22	.02	.90
QuarterlyBoardMtgs	.32	.24	.16	.19
OutsideBoardMember	-.31	.22	-.15	.16
BoardInsistonSuccPlan	.63	.22	.33	.006
MissionStatement	-.29	.19	-.18	.12
StrategicPlan	-.25	.25	-.13	.31
OrganizationalChart	.03	.22	.02	.89
EmployeeCareerPath	-.08	.25	-.04	.74
EmployeeManual	.25	.18	.13	.18
KeyManagementDevPlan	.68	.29	.30	.02
Buy/Sell	.22	.17	.13	.20

Family Influence

The relationship between family influence and the extensiveness of business succession preparedness was analyzed using ordinary least squares regression to determine the extent that family influence was associated with the extensiveness of business succession preparedness. The multiple regression model produced $R^2 = .21$ $F(16, 111) = 1.88$, $p < .05$, indicating that family influence was significant and was associated with the extensiveness of business succession preparedness. The hypothesis was confirmed. Spousal influence had been an addition to the F-PEC in this study. However, the variable was eliminated from the analysis due to the decrease it created in R^2 , possibly due to the smaller response for that variable ($N = 92$), the lack of significance, and the lack of correlation to any other family influence variables. Family influence explained approximately 21% of the variance for the extensiveness of business succession preparedness.

The standard beta estimates of each variable were measured within the group to determine their respective value to the group model. Within the family influence group, the extent family members agree with the family business goals, plans, and policies contributed the most to the model ($\beta = 0.38$), followed by which generation is managing the business ($\beta = 0.20$), and the business and family sharing similar values ($\beta = 0.19$).

Table D.4 Summary of Regression Analysis for Family Influence Variables Association with EBSP

Variable	B	SE B	β	ρ
PercentOwnership	-.39	.51	-.07	.46
GenerationOwns	-.48	.51	-.13	.35
GenerationManages	.77	.54	.20	.15
GenerationGovBoard	.35	.27	.13	.21
FamilyInfluence	-.14	.20	-.07	.48
FamShareSimValues	-.10	.39	-.037	.79
FamBusShareSimValues	-.62	.54	-.19	.26
FamSupportiveinOutsideDisc	-.02	.34	-.006	.95
FamilyFeelBusLoyalty	.05	.50	.01	.92
FamProudofBus	-.37	.50	-.09	.46
MuchGainedbyParticipating	-.21	.36	-.06	.56
AgreeonGoalsPlansPolicies	1.08	.39	.38	.007
CareAboutBusFate	.01	.36	.004	.97
BusInvisPositiveInfluence	.61	.64	.16	.34
SupportFamBusDecisions	-.39	.57	-.12	.50
FamEffortBeyondExpected	.46	.31	.17	.13

Access to Capital

The relationship between access to capital and the extensiveness of business succession preparedness was analyzed using ordinary least squares regression to determine the extent that access to capital was associated with the extensiveness of business succession preparedness. The multiple regression model produced $R^2 = .11$ $F(4, 123) = 3.64$, $p < .01$, indicating that access to capital was significant and associated with the extensiveness of business succession

preparedness. Access to capital explained approximately 11% of the variance for the extensiveness of business succession preparedness.

The standard beta estimates of each variable were measured to determine the respective value to the group model. Within the access to capital group, internal business reserves contributed the most to the model ($\beta = 0.27$), followed by overall access to capital ($\beta = 0.15$).

Table D.5 Summary of Regression Analysis for Access to Capital Variables Associated with Business Succession

Variable	B	SE B	β	ρ
AccessToCapital	.36	.21	.15	.09
FamilyCapImportance	-.02	.19	-.01	.91
BusinessReservesImport	.54	.20	.27	.009
BankLoanImportance	.02	.18	.009	.92

External Environmental Factors

The relationship between the external environmental conditions and the extensiveness of business succession preparedness was analyzed using ordinary least squares regression to determine the extent that the external environmental conditions were associated with the extensiveness of business succession preparedness. The multiple regression model produced $R^2 = .06$ $F(6, 121) = 1.39$, $p > .05$, indicating that the external environment was not significant and was not associated with the extensiveness of business succession preparedness. The hypothesis was rejected. The external environment explained approximately 6% of the variance for the extensiveness of business succession preparedness.

The standard beta estimates of each variable were measured within the group to determine their respective value to the group model. Within the external environment group, the metropolitan size contributed the most to the model ($\beta = 0.19$) and was the only significant factor.

Table D.6 Summary of Regression Analysis for External Environment Variables

Association with EBS

Variable	B	SE B	β	ρ
MetroSize	-.36	.17	-.19	.04
MetroGrowth	.02	.32	.01	.94
EconomicTurbulence	-.06	.04	-.13	.15
IndustryLifeCycle	-.05	.39	-.01	.89
SuccessionRegulated	.09	.19	.05	.63
TaxEnvironment	.28	.20	.13	.17