

**SUCCESSFUL TRANSITION OF FAMILY BUSINESS
SUCCESSION PLANNING**



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SUCCESSION PLANNING**

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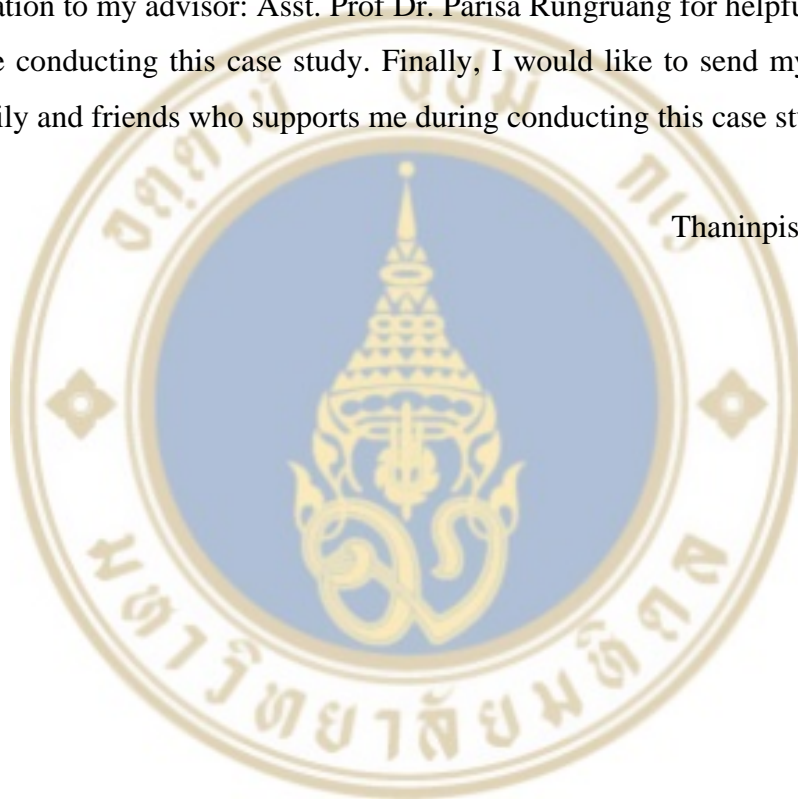
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SUCCESSFUL TRANSITION OF FAMILY BUSINESS SUCCESSION PLANNING

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ABSTRACT

SMEs and family business organization are the major contributors to Thai economy growth. From recent study, it is shown that only 30% of owner-managed businesses are passed on to the first generation, and that only 10% make it to the third. This case study is aimed to identify the elements that contribute to the success of the business transition to the next generation and to ensure Thai economy sustainability. The purposive sampling technique was employed in order to gain the sufficient information for the research topic from a group of people who have background/expertise relates to the objective of the study. Ten participants from the management level of an SMEs organization in succession transition implementd by informal and formal succession planning. The results of this study are based on the research frame work that comprises of the relationship of each stake holders within an organization and steps in succession planning. It is founded that elements that can contributes to success transition are predecessor's past work experience outside an organization which positive affects smoothness of the transition. For example, a manegerial and stake holder's relationship management skills were found to greatly influence the effectiveness of relationship among each family/business members and improved planning and control activities.

KEY WORDS: Family Business/ Succession /Successful Transition

21 pages

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CHAPTER I

INTRODUCTION

The family business is the oldest form of multi-party business enterprise (Hutcheson, 2002). It has been known that a majority of SMEs entities are considered the largest contributors of the economy growth (Noor Afza, 2011; Moha Asri et al., 2011) and employment opportunities (Yong, 2006).

A recent survey confirmed that the majority of owner managers intend to pass the business on to their children, but less than 30% have a succession plan. It is also generally accepted that only 30% of owner-managed businesses are passed on to the first generation, and that only 10% make it to the third (Thompson, 2006). It has been known from the researches that successful transition of business is a necessity factor of a succession of family-owned business (Parrish, 2009). Hence, transition without planning could possibly lead to the mortality of the business in the next generation of management. The succession planning process can be long and continually guidance from the predecessor and structured steps could ensure the success of transition and satisfaction of parties involved.

This study aims to identify the elements that play a part of a successful transition and survival of SME through generation of succession. The area of study would rely on the acknowledgement of succession planning by the founder of Thai SMEs, the stages of the implementation and factors that influence their succession planning. Moreover, the different perspectives of each SME's would beneficially help identify the elements that play a parts in successful of transition to the next generation.

CHAPTER II

LITERATURE REVIEW

This literature review can be categorized into two sections.

- 1) The definition of family business and family business framework.
- 2) Succession plan and the importance of it.

2.1 Family Business and Framework

2.1.1 Family business

An organization is considered a family business when it has been closely identified with at least two generations of family and when this link has had a mutual influence on company policy and on the interests and objective of the family. However, family business can be defined in various ways: family as a business owner, business manager, successor, and worker. This can rely on the multiple roles and involvement in family business.

2.1.2 Family business framework (Three Circle Model)

The three interdependent and overlapping groups that comprise the family business system: family, business and ownership. As a result of this overlap, there are seven interest groups present, each with its own legitimate perspectives, goals and dynamics. The long-term success of family business systems depends on the functioning and mutual support of each of these groups (Tagore & Davis, 1982).

The interdependence of the three entities becomes more evident when the people within each circle are identified. It quickly becomes clear that the three circles overlap. For example, at the intersection of the three circles (zone 7), business members who are at the same time members of the family, business and owner of the company were found. At the intersection of family-business (zone 6), people who are family

members and employees of the company at the same time, but do not own shares of the company were found. Continuing in illustrated framework, seven different zones are distinguished into which each person linked to the family business, whether closely or not, can be placed.

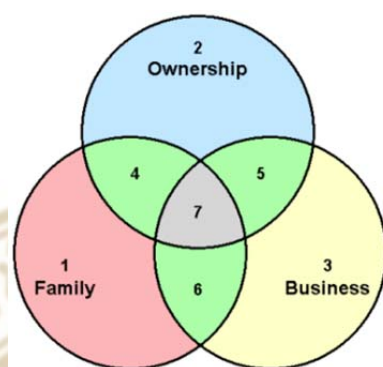


Figure 2.1 Three circle model indicates each stakeholders in the organization

The advantage of placing each person within the circles is to better understand their behavior, which is often linked to the advantages and disadvantages of their position. For example, the predecessor who is leading the company is usually found in zone 7. This person generally has a good understanding of the family as well as the strengths and weaknesses of each family member. The person also knows the company inside and out. The person is in a perfect position to help the family fully benefit from the company and vice versa. Considering a place where business successor should belong in which zone can varies depending on the stages of preparation and how they would see themselves in the future fitting the place in the company. This theory could also be applied to analyze those key personnel who fall in business zone that can play a vital role in the organization sustainability.

2.2 Succession Plan and the Importance of It

The succession plan has been known as instrumental for the success of SMEs to remain in business regardless of voluntary or involuntary circumstances to any SME's organization. Neither, the former management wants to step down due to reaching a retirement age, the shift of interests from the business nor permanent disability,

death, or illness. An effective succession plan in place would help ensure the continuity of the business.

A succession plan is a process for identifying and developing internal people with the potential to fill key business leadership position in the company, as it increases the availability of experienced capable family members or employees that are prepared to assume these roles as they become available. Recruiting outside talent is also a good alternative to be included in the succession planning because it can be organization's opportunities to gain fresh ideas and knowledge and becoming competitive in rapid changing business environment. Despite the advantages, entrepreneur seems to oppose with the idea due to the cost of recruiting outside talent and the success is unproven. In general sense, succession planning is an ongoing process of (i) regeneration, (ii) retention, (iii) recruitment.

2.2.1 Challenges in succession planning

2.2.1.1 Readiness of predecessor

From the results of recent studies on Thai SMEs (Kanitsorn, 2013), 73.9% of Thai SMEs are aware of the succession planning. Interestingly, only 45.8% of them have thought about the succession plan and mostly 'informally' versus structured 'formal plan', while 54.2% of them have no succession plan in place at all. However, more than half of SMEs who has no succession plan considered about writing one. It indicates the levels of the awareness of how importance the succession plan is. However, there were reasons that make the SMEs owner believe that the succession planning can be postponed. First, with such amount of little resources that most SMEs have, they have been fed up with the daily activities that need to keep the business going. Second, the founder are afraid to cause the turbulence when choosing a successor especially when they reaching their retirement. This is the consequence that the founder has failed to implement the succession plan early.

2.2.1.2 Readiness of successor

Another reason for a business founder to consider handing over their management to a successor is the doubt in their successor's willingness to take control in the business. This relies mainly on the availability of resources in the organization; both for developing family members, employees and recruiting outside

talent. Common issues that are usually found could derive from many aspects. First, the lack of necessary skills to manage the business from insufficient training. Since, some of the founders of the business have hoped that their successor could gradually learn and matured to become the successor by themselves. They believed that their descendant was more capable of them in conducting business in modern ways because they are more familiar with newer technology such as online sales, computers than they are. Hence, they would only need to support them in some aspects such as business partners and networking only. Second, a willingness of the successor to be in position. From the first reason, the successor under inefficient or none succession planning would felt incompetent and not confident in their skills to take over the control of the business. Another dimension is their entry level into the organization. Since, a succession plan is a continual progress rather than a single event, from this aspect a careful planning of selecting and grooming a successor would need to be carefully planned and developed. Third, an uncertainty of retaining the successor to stay with the organization. Due to descendant may not interest to stay with the organization; they can make better income outside of the organization or want to pursue a different career path. The same scenario can be even more doubtful for outside talent recruitment.

2.2.1.3 Relationship among family and business members

From recent research (Nor, Genefri & Saliza, 2013), it has been confirmed that the family relationships and business were significantly contributors regarding the smoothness of succession transition. From all factors associated (communication, trust, commitment, loyalty, family turmoil, sibling rivalry, jealousy, conflict, sharing values and tradition). It has indicated that factors such as trust, commitment, and loyalty have significant effects on smooth transition and profit margins for small-scale businesses (Wang et al.2004) and the performance of family businesses (Noraini & Ahmad Najmi 2009).

2.2.1.4 Planning and control activities

Common difficulties when a family is a part of a succession plan is the lack of preparation of the predecessor, successor, and not preparing the business (Thompson, 2006). It is vital that the goals of the succession plan should be identified to meet managing expectations.

The planning should include the successor in it, as the continually process of succession planning usually takes time in grooming and developing the capable successor and to overcome the issues of '*readiness of successor*'. Moreover, in order to find the capable successor; an organization should apply training program and job rotation to nurture the descendant, or develop its employees to become its candidates in successor selection. Interestingly, recruitment of outside talent that is perceived to be beneficial for an organization was the least preferable for an organization in succession planning because of high cost of recruitment and unproven capability of this option.

A review of succession plan is also another area that has been neglected by most organization (Noor Arfa & Ayoib, 2009). Since, this can provide a level of measurement of the succession plan. Whereas, directly reflects the development of the successor and the '*Readiness of successor*' to indicate the stage of successor preparation. Moreover, these measurements can also applied to the reward system as retention mechanism of potential successor as well.

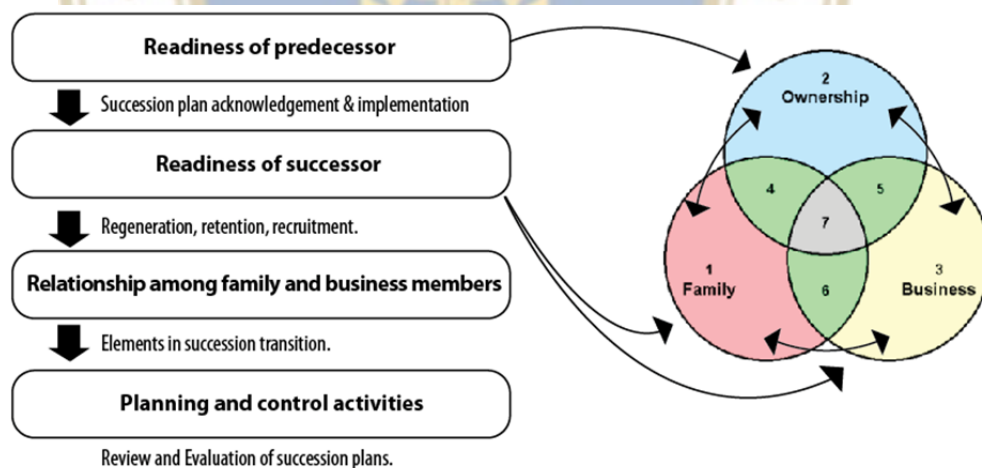


Figure 2.2 Relationship of succession planning process and Three circle model

CHAPTER III

METHODOLOGY

In order to investigate into the succession planning of Thai SMEs who implement the process systematically “formal plan” or non-systematically “informal plan”, the varies roadmap underlying the implementation by each individual and a relationship to each SMEs’ implementation results would be studied; Informal versus formal plan, different successor selection, the position of stakeholder who take part in the planning, the readiness of the predecessor, the readiness of the successor, the relationships among family and business members, planning a control activities.

3.1 Research Design

Qualitative collection method for primary data was used toward this study. Since the complexity toward the research topic would not be quantifiable due to the difference in social norms, socioeconomic status, gender roles, whose role in the research issue may not be readily apparent. The significant approach of in-depth interviews was used as it helps gathering data on individual’s personal histories, perspective and experiences, particularly when sensitive topics are being explored. Advantages of qualitative methods in exploratory research are the degree of flexibility built into the study design in which questions could be adjusted according to what is learned. The semi-structured method research method would help researcher understand the complexity of relationship between the factors in research topic, to describe the individual experiences, group norms (Nouria & Judith, 2015).

3.2 Population and Sampling Size

The target population of this research is the the predecessors of Thai SMEs organization. The purposive sampling technique was employed in order to gain the sufficient information for the research topic from a group of people who have background/ expertise relates to the objective of the study. Ten participants from the management level of an SMEs organization in succession transition implementd by informal and formal succession planning.

3.3 Data Collection

The interview is the most suitable methods for collecting the data for qualitative research especially when the researcher needs to understand the research topic with complexity that quantitative methods would not be able to explore (Jo, 2011). To be able to understand the attitude of stakeholders undergoing a succession transition, the research will be conducted in semi-structured interviews according to the issue in order to gain as much information to analyze. The open-ended questions with textual format recorded would be used during the interview in order to gain interviewees' attitude, and opinion as much as they were willing to discuss. The information confidentiality would be emphasized in order to make the respondents comfortably express their thoughts.

3.4 Data Analysis

The direct content analysis in a finding of the conclusion of the open-ended interview responses was implemented. The goal of a directed approach to content analysis is to validate or extend conceptually a theoretical framework or theory. Existing theory or research can help focus the research question. It can provide predictions about the variables of interest or about the relationships among variables, thus helping to determine the initial coding scheme or relationships between codes (Sarah E Shannon, 2005). Data collected primarily through open-end questions will be followed by targeted questions about the predetermined categories. Then the researchers will use probes specifically to explore participants' experiences towards topic of the research.

CHAPTER IV

FINDINGS AND DISCUSSION

In this chapter of the research, the information gathered and the demographic profiles of the interviewees will be displayed. The research methodology was designed to identify the elements that play a part of a successful transition and survival of SME through a generation of succession. The findings from 10 respondents would be an indication of elements that are significant in a process of succession planning.

4.1 Demographic Profiles of Respondents

Table 4.1 presents the data of demographic background of the respondents and their succession planning. Ten respondents have participated in the current study, eight of them were business founders and two of them were the 2nd generation business owners. Of 10 respondents, there are 8 males and 2 females, with 3 people at the age range of 40 – 50 years old, 3 people at 50 – 60 years old, and 4 over 60 years old. 60% of the respondents have more than 20 years of working experiences; with 3 of the respondents have been running their business for 11-20 years and only 1 of them running their business for less than 10 years. As classified by those business owners regarding the implementation of a succession plan, 4 didn't have implanted a succession plan, 4 who have implemented an informal plan, 2 who have implemented formal plan. Of those who implemented informal and formal plan, 66.67% didn't review their plan; only 2 have their succession plan reviewed. 40% of the respondents who didn't have specific goals for a succession planning; 4 of the respondents who have specific goals, 2 of the respondents who were not sure about their goals for a succession plan. From all respondents there were alternatives of successor selection; 50% who select their descendants as a successor, 5 who select internal resources, 2 who select a recruitment method.

Table 4.1 Demographic backgrounds of respondents and their succession planning

Demographic Background	Quantity	Frequency (%)
Gender		
Male	8	80.00%
Female	2	20.00%
Total	10	100.00%
Age Range		
40 to 50	3	30.00%
50 to 60	3	30.00%
Over 60	4	40.00%
Total	10	100.00%
Generation of business		
1st generation	8	80.00%
2nd generation	2	20.00%
Total	10	100.00%
Years of Experiences(As Business Owner)		
Less than or Equal to 10	1	10.00%
11 to 20	3	30.00%
Over 20	6	60.00%
Total	10	100.00%
Current involvement in the business (in percentage)		
0-33%	3	30.00%
34-66%	3	30.00%
67-100%	4	40.00%
Total	10	100.00%
Succession plan		
No	4	40.00%
Informal plan	4	40.00%
Formal plan	2	20.00%
Total	10	100.00%
Having Specific Goals for a succession planning		
No	4	40.00%
Yes	4	40.00%
Not sure	2	20.00%
Total	10	100.00%

Table 4.1 Demographic backgrounds of respondents and their succession planning (cont.)

Demographic Background	Quantity	Frequency (%)
Having a review of succession plan		
No	4	66.67%
Yes	2	33.33%
Total	6	100.00%
Successor selection		
Descendant	7	50.00%
Employee training	5	35.71%
Recruitment	2	14.29%
Total	14	100.00%

4.2 Research Findings

The steps in succession plans implementation found from respondents would be categorized based on the steps in succession planning. The topics of readiness of predecessor, planning and control activities, the relationship between family and business members, the readiness of the successor would be discussed in this chapter.

4.2.1 Readiness of Predecessor

One of the findings founded from the respondents was the issue of having the specific goal for their succession planning. From the interview conducted, only 40% of the respondents could immediately identify the goals of writing the succession plan; 20% has unclear goal and not sure if there would be some changes in the future; while 40% from the respondents were not able to identify the goals for a purpose of writing a succession plan despite their acknowledgement of benefits that could derive from having a succession plan. The founder's limitation that was commonly found regarding a succession planning was the availability of a capable successor, their candidate was still too young or they were working outside an organization.

One of the respondents said that, "It is not the time to think about the succession planning since my children are still studying and I'm always busy with my day to day responsibility."

Another respondent said that, “I would not force my son to take over my business. Unless, he chooses to do so and he has to prove himself to me first.” In this case, the respondent has chosen to wait until her heir have decided that it’s time to take over the business without exact schedule during planning.

The issue is somewhat difficult to determine an importance of having a specific goal in the process of the succession planning since every respondent’s circumstance is different from each other. However, it was quite important to have a specific goal in place, as it is a determination of a long process of a succession planning.

Another interesting fact gained from the interviewees is the lack of preparation in succession planning, especially in the involuntary circumstances. Two of the research respondents who found themselves in this situation had forced to endure such a difficult situation. However, both of their descendants have stepped up to continue the business. This also stressed out importance of the succession planning.

Most importantly, it would not be viable to justify the stages of succession plan because every business is entirely in different stages and clearly have different goals due to their different circumstances, whether they had a descendant to take over or how they see the future of their business and if they would like to continue it.

For example, one of the respondents who founded printing pre-press services Company said that “I have no descendant to continue my business. However, I would like to groom and appoint my subordinate as a key player to continue running the business. The goal for my commitment is a sustainable income for my employee’s future and my retirement future.

However, only four of the respondents could identify their goal of succession plan right upon the discussion of this topic. Since the goal setting of the succession planning is the foundation of a long continuation of the succession planning. Only two respondents were able to identify the clear timeline of the implementation plan that they would like to succeed along the process of succession transition. It was somewhat worrisome in an event of the involuntary circumstances shall occur since the only thing certain is uncertainty.

Information gathered from in-depth interview has confirmed the previous researches that founder’s past experience outside an organization plays an important role in writing a succession plan. Experiences in the larger organization had greatly

reflected the founder's perspective when considering having their own succession plan written. Apart from the managerial skills they gain when they were in that organization, their past experience from their former mentor were also greatly beneficial their skills in shaping a vision for the future of their founded business.

4.2.2 Planning and control activities

Another finding regarding succession selection was also found. The founder's past work experienced was found to be a powerful influencer. According to one of the respondents who is currently running an electronic appliance company, he appreciated managerial experiences gained in a large retailer chain and stressed out an importance of an organization structure in any business organization.

He said that "I applied an organizational chart with the clear description of responsibility to my organization. Alongside with my organization workflow that ensures the continuity of the business function. When someone is missing there would always someone who would take responsibility. And with the clear organization chart, a recruitment for the position would be possible with a right and capable personnel." This implication has shown that it helps to eliminate the limitation when making a successor selection.

From the information gathered regarding planning and control activities, it has found to be unidirectional with the recent research that the past experience work outside the organization could positively affect the founder's implication of planning and control activities.

4.2.3 Relationship Among Family and Business Members

An important element that one of the respondent gain is experience in corporate governance that he applied to his succession planning. For example, the skill in managing the relationship between the business members that helped him with the employee retention for a further successor grooming.

One of the respondents who founded vehicle tire business said that, "My former mentor were always sincerely guided me in both profession and personal life. He always guides me through my career path and constantly supports me. Most importantly, he always kept his promised when I accomplished my assigned goals. Using him as

my role model, I always communicate my employee's career path within my organization and I always treat my employee with honesty. What I promised, I would honor that."

The relationship between the business members concept were also applied to his business. He believed that, constant communication about the organization's future growth within an organization with his employee help established commitment and loyalty towards an organization. He also points out his employee selection criteria for further grooming; years of experience within the company, honestly. While the employee's capability is not the most significant since he believed that these skills can be trained if the selected employee has a commitment and loyalty towards an organization.

From the information founded, it has confirmed the recent research that the organization support in succession planning could help ensure the success of the succession planning. It could help prevent the skill shortfall and helps retain the capable resources within the organization.

4.2.4 Readiness of Successor

Last finding regarding choosing descendants as a successor is that most of the business founders would definitely want their descendants to continue a business succession. However, the level of preparation they put in their descendants is somewhat unclear. Despite all of the interviewees provide sufficient education of Bachelor or Master Degree to their descendants, only one of the respondents has communicate with his descendent early in choosing an education according to the career path ahead.

One of the respondents who were a former founder of a construction company said that, "I tried to communicate to my son early, if he would like to continue my business. Since the nature of the business required a specific skill, education planning to pursue the line of work education would help my son tremendously."

Inevitably, it is hard to indicate the importance of this earliness of heir preparation; some of the respondents rather wait for the things to play out. Since most of the parents would allow their children to pursuits an education according to their interests.

For example, one of the respondents who have implemented the succession planning successfully in later stages reaching her retirement age.

One of the respondents who founded her steel shop said that “I would not force my son to take over my business. If he was willing to take over, I would help guide him in to the process.”

Elements in choosing descendants as a successor regarding the relationship between family and business members were also founded. The lower entry level of a successor into an organization was used by many interviewees, as a way to groom their descendants and as a way of how the successor earns their trust.

A respondent who was the founder of automobile accessories company said that, “I would put my descendant in operation level so that he can learn how the business was run from every point of view. This is how I can make sure that he would be capable of running my business in the future.”

The information gained from the interviewees has confirmed the recent research that the entry level into an organization could translate to the smoothness in the transition. It is also found that a succession selection could vary due to the differences in the circumstances and founder’s goal of business continuation. In most case, a descendant would definitely be the first choice of successor selection. However, the sizes of the business were also expanding an option for the founder when selecting a successor as well.

CHAPTER V

CONCLUSION

5.1 Practice Implications

From the findings, it indicates that some of the business founders were unclear about the goals of having a succession planning. Since the succession planning is never ending process and constantly needs adjustment along the way. It is very important for entrepreneurs to identify their goals for both short and long run. It is undeniable that most of business owner would want the business to continue and stays within the family. However, the plan should cover the unexpected outcome shall the plan fail. An alternative plan should be designed in advance to rectify the situation. In this case, a plan to exit the business or retirement plan for the business owner should be included in the succession plan.

However, the options that are available to them would vary vastly due to a different stage of planning circumstances. Hence, the goal for a succession plan should be reviewed as soon as the situation has shifted. This is because the review of succession planning would help present the options that have never been explored by the business owner especially in the case of involuntary circumstance that could happen.

In order to make sure the sustainability of the family SMEs business, the government agency such as Office of small and medium enterprises promotion should help promote the importance of having a succession plan. A support such as consultation regarding business succession could also be implemented.

Another aspect of planning and control activities is human resources retention and organization structure. It is very important for the business to be able to retain the capable resources for further grooming and to prevent the skill shortfall within an organization.

First, the program such as a reward system and career path consultation should be constantly practiced and communicated throughout the organization. Second, a proper welfare offered to a business stakeholder. Third, an education scholarships program to help develop inside talents. Hence, these are some of the examples of organization supports that can greatly improve an organization's value and performance. The relationship among family and business member such as commitment, loyalty within an organization would also be improved.

External talent recruitment is also a good alternative for a succession planning. Since, external recruitment could be a great opportunity to inject new knowledge and energy into an organization. However, the option might not be viable for a smaller organization with limited resources.

First, the business should implement a clear organization structure and clear job description. Second, a proper welfare and employee support program should also be considered, in order to attract outside talent into an organization.

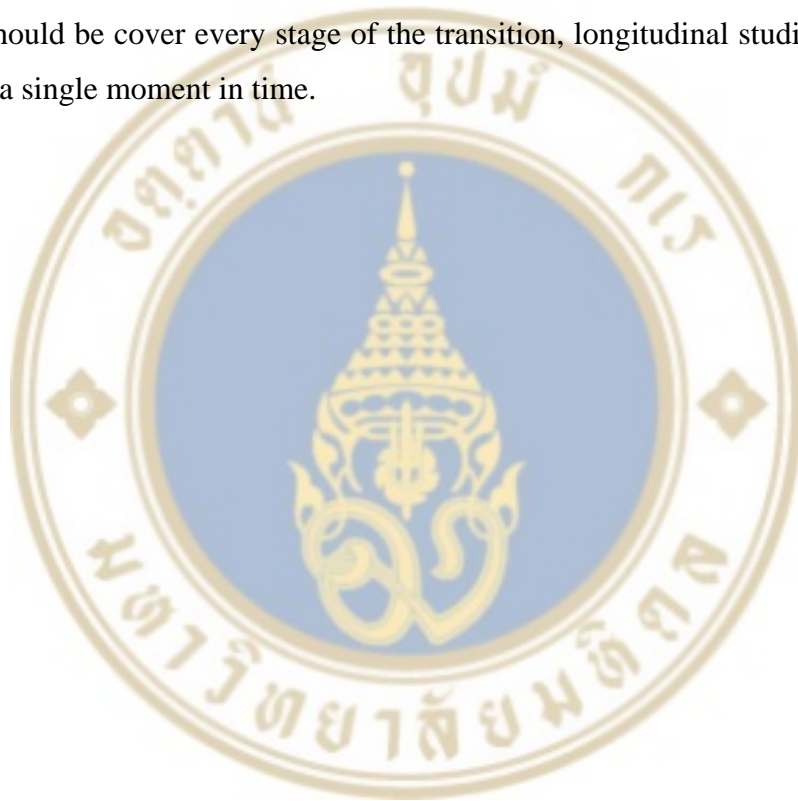
In the case of descendant as a successor; first, it is recommended that the descendant should seek a working experience outside an organization. The experience outside an organization would greatly assist bringing in the new knowledge and energy into an organization. Second, the entry level of the successor into an organization should be planned carefully. Since, this can ensure that the successor felt capable of the responsibility of their position and to make sure the smoothness of the transition.

Most importantly, the stakeholders should be included in the planning process to ensure that the same goals for the succession planning are valued. Thus, it is vital that all of the stakeholder's are looking forward towards the same outcome.

The process of succession planning required a lot of effort and need constant support from the organization. Complexity in the process could arise from the different goals of stakeholders. It is advised that the business owner should look for advice from an expert if applicable. Since, the opinion from the outsider's perspective would help the business owner explore all the available options that sometimes are overlooked.

5.2 Limitations of the Study and Suggestions for Future Research

The research has discovered some factors that distinguished some of the respondents in a good sense. However, there were some degrees of inequality among respondents due to factors such as the different stages of succession plan implemented, the differences in available resources and sizes of the business. Therefore, in order to make the study more general and applicable, future research should be done with a different approach. The longitudinal study conducted from the respondents with success transition should be considered. Since, the nature of the topic is not possible to manipulate and it should be cover every stage of the transition, longitudinal studies would extend beyond a single moment in time.



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