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**WHAT FACTORS MAKE SUCCESSFUL FAMILY BUSINESS
INHERITANCE FOR SMALL AND MEDIUM SIZE ELECTRICAL
APPLIANCE MANUFACTURING INDUSTRY IN THAILAND?**



**A THEMATIC PAPER SUBMITTED IN PARTIAL
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**WHAT FACTORS MAKE SUCCESSFUL FAMILY BUSINESS
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APPLIANCE MANUFACTURING INDUSTRY IN THAILAND?**

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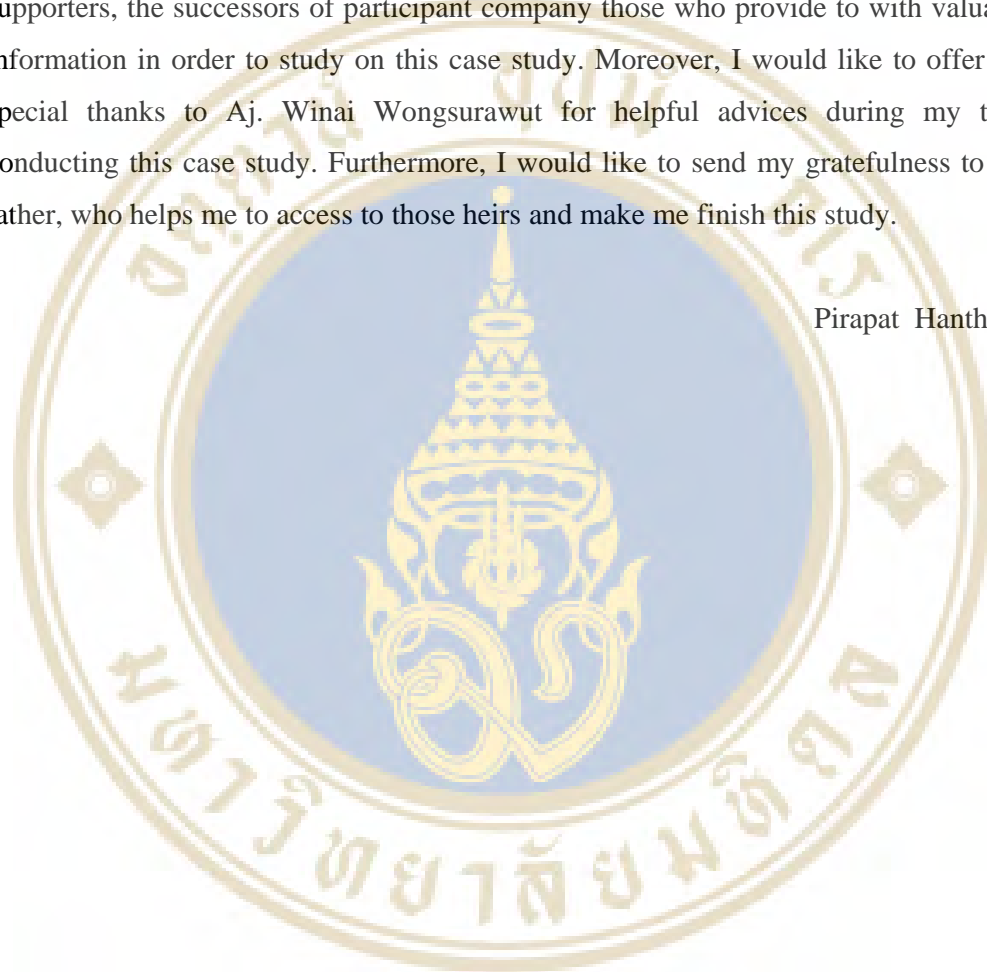
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ABSTRACT

Thailand has many family businesses in many fields of industry. Most of family business in Thailand was found by Thai-Chinese family, which each of family will definitely let the heir to take over the business in the future after the retirement of founder. From previous study, it is shown that only 30% of family business can survive after to the second generation then 15% survive through the third generation. Therefore this study case will work on factors that can lead the successful succession for Thai family business. From previous study, it presented that the successful succession can measure with the profitability and satisfaction of stakeholder. All of participants in this study case present the successful in succession. The empirical evidence from this case study present that there are four factors that make prosperous succession. For instance, the effective communication of succession from the founder to employees in company, the readiness of succession, work experience inside family business of successor and the willingness to let go of business status of the predecessor.

KEY WORDS: Family business / Succession / Success factor / SMEs Thailand

26 pages

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CHAPTER I

INTRODUCTION

1. Introduction

Family business is one type of organization that can be seen easily in Thailand. Most of family business will found by Thai-Chinese people. Family business penetrates into many industries in Thailand, for example manufacturing business, service business and agriculture business. Family business is the business that found and operates by family members. The management power and ownership will forward from one generation to the next generation. Some of these successions are prosperous but some of them face the failure. The successors might generate higher or lower benefit than the previous generation. Therefore, there are some factors that involve in the succession that cause the success or failure of the next generation family business. In this study, it will seek the factors that will make the successful inheritance in small and medium enterprise in Thailand.

I will focus the study group within the electric appliance manufacturing business. Being in the family business since I was a child, it gives me experience in the operational process in small size family business. As in the future, I would be the one who take a management position in my family business. During the time I grown up, I can see the success succession as well as the fail in the succession. I can experience this through friends of my father, some of the successors decide to cash out and get out of business, some of them potentially become the great owner and generate higher profit than the previous generation, some of them take over the place but make the company face the recession and make profit decline. With these experiences, it makes me wonder that why would theses inheritors can lead the company in such different outputs even though they are in the same industry. This empirical study will be focusing on what factors that will lead the succession become success for the manufacturing family business? Furthermore, the result of this study will present what

would be the effective succession process of small and medium size family business in Thailand, specifically in electric appliance manufacturing industry?



CHAPTER II

LITERATURE REVIEW

Some of previous researches had investigated the successful succession of family business for the long time. The result showed out to be that only 30% of family businesses survive to the second generation. After the second generation, there is only 15% that survive to the third generation (Beckhard/Dyer, 1983, Ward, 1997). The cause of the failure in the succession can be seen in the transitional leadership from the previous generation to the next generation (Bigliardi/Dormio, 2009). Many researchers agree that the generation transitional needs to plan in advance in order to gain the successful succession. In contrast, some of the planning was not done and allowed the event to happen when succession is in needed (Duh/Tominc/Rebernik, 2009), for example, the previous owner was sick or passed away. The successful succession can happen with 2 aspects. The first one would be the profit that the successor can run the business and generate the success in terms of financial wealthiness. The second aspect would be the relationship between family and non-family stakeholders after the inheritance. With that result of the previous research, there are many effective succession model were studied.

The first model was from the study of Handler (1991) that focuses on three phases of succession. The first stage would be the development of successor where the heir needs the certain level of educational background and work experience from outside the company. The second stage is the involvement of the heir. This stage the successor need to work with the owner in order to transfer the responsibility and the management power to the heir. The last stage is the transition of the power and ownership from the owner to the successor.

The second model is the study of Morris (1997). Morris set the element of succession to be 3 simple elements that need to be conducted to perform the effective inheritance. The first element is preparation of the heir to take control of family business. The second element is type and strength of family relationship between the

previous owner and the successor. The last element is the planning and control of management level in family business.

The result of study shows that the most effective element that result in the successful succession was the strength and type of family relationship between forerunner and follower.

The third model will measure the satisfaction of both family member and non- family member stakeholder and the effectiveness of result (Sharma, 2001). There are 4 components of this model. The first component is the willingness to transfer business from the current owner to the heir. The second element is readiness of successor to take over the business. The third component is the agreement on succession from family member and non-family member. The last element is acceptance of individual role of family member and non-family member.

From the mentioned study, it is shown that there are some other factors except the previous 4 factors that cause the succession satisfaction in family enterprise; such as barrier within family members, the opportunity in family business, ambitious successor for the success in family business, trust gained from predecessor, ambition on experience outside family business, and the effective of consult and advice from the predecessor.

CHAPTER III

METHODOLOGY

3.1 Methodology

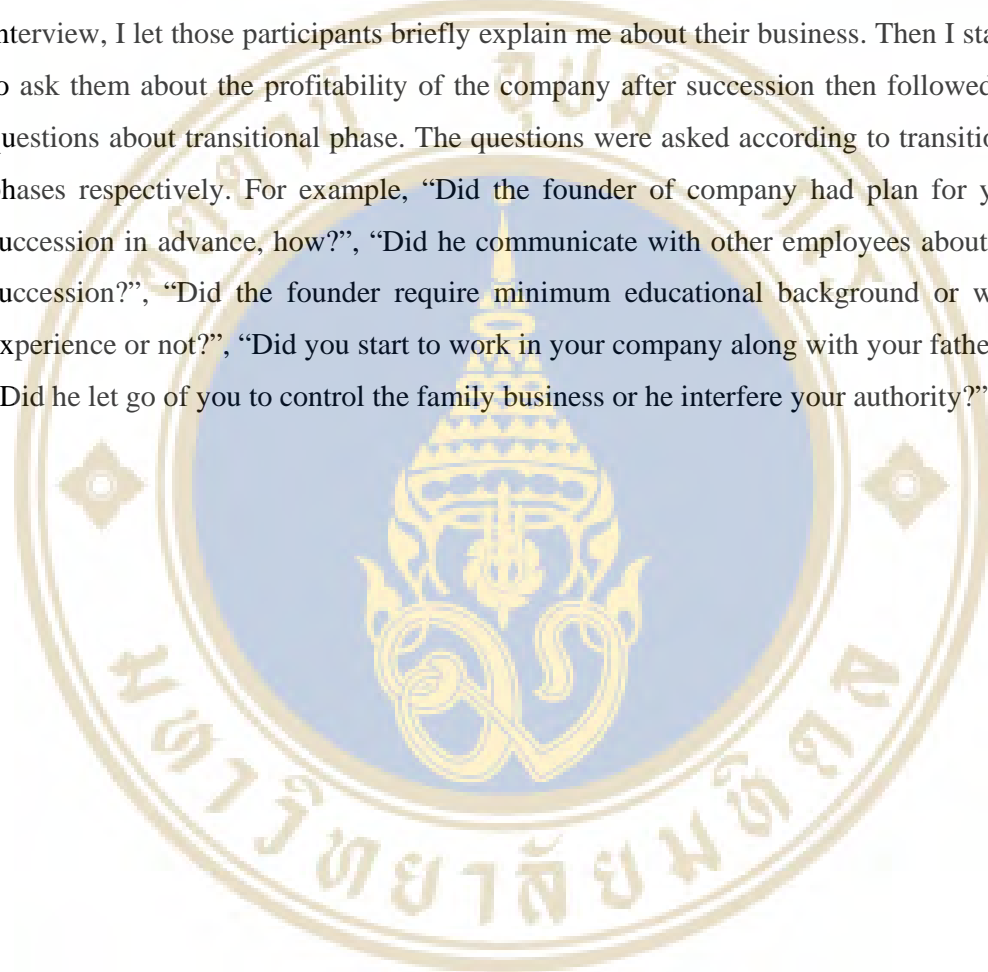
Regarding to the information gathering, I am aiming to gain the empirical solution of the success succession of small to medium size family business. In order to gain the information, I would conduct the in-depth interview with four business successors. I would use the connection of my father, who is friend or colleague of those heirs, to access those people easily. The questions are separated into two main aspects. The first aspect would be the profit-measuring question in order to define the success in term of wealth compared with the previous ownership generation. The second aspect would be the question about the transitional phrase from the previous ownership to the next generation. I would use the study case base on the research of Sharma (Sharma, 2001) to represent the relationship between family member and non-family member as well as level of satisfaction of stakeholders. I would also set up the research framework regarding to the transitional phase that has been studied by-Bigliardi and Dormio (2009) that has 5 transitional phases following this:

1. Planning and communication phase
2. Heir development phase
3. Heir involvement in the family business
4. Leadership succession
5. Management of relationships with family and non-family member

The result of this question will indicate the success of inheritance in terms of the relationship management and how well the process and planning of succession occur.

3.2 Data collecting method

I had conducted the in-depth phone call interview with those four successors. Each interview was 15-20 minutes due to the length of interview. I had divided questions into two aspects. The first aspect is the profitability of the company after the succession process. Then I asked them the questions that related to the 5 phases of succession as mentioned in methodology part. At the beginning of the interview, I let those participants briefly explain me about their business. Then I started to ask them about the profitability of the company after succession then followed by questions about transitional phase. The questions were asked according to transitional phases respectively. For example, “Did the founder of company had plan for your succession in advance, how?”, “Did he communicate with other employees about the succession?”, “Did the founder require minimum educational background or work experience or not?”, “Did you start to work in your company along with your father?”, “Did he let go of you to control the family business or he interfere your authority?”



CHAPTER IV

FINDING

4.1 Background of participant companies

Company A was established for almost 40 years. The founder of this company is the leader of the family, father. This company has expertise in plastic mold injection due to the past experience of the owner. The company's main product is the composition of electrical appliance or we can be called original equipment manufacturer (OEM). The examples of electrical equipment are refrigerator, fan, air conditioner and water pump. The factory is located in Bangphli, Samutprakarn where it is near Bangphli industrial estate. This company has around 70 employees, which is the smallest company among other participants.

- Company B was established for 27 years. The founder of this company is the oldest brother of the family. The successor of this company is the younger brother of the founder. Company B has the different product from other three participants, which is electric wire. Most of company B's product is the electric wire that use in electrical appliance whereas only a few portion of their product use in automotive industry. Company B is located at Seri-Thai road, Bangkok. It has the biggest number of employees compared with other three participants at 320 employees.

Company C was established for 32 years. As well as company A, the founder of family business is the father. The successor of this company is the only son of the owner. Company C focuses on producing plastic part for electrical appliance or OEM. Company C has many big injection machines which it can produce big plastic part for electrical equipment composition such as the stand of big fan and the container of refrigerator. This company is located in Bangphli, Samutprakarn same as company A. This company has around 200 employees, which is the second biggest size compared with other participants.

Company D was established for 25 years, which is the youngest company compared with other three companies. The founder of this company is the father of three sons whereas the successor of this company is the middle son. This company has the same produce as company A and company C, which is OEM part for electric appliance. This company is located in Bangpla, Samutprakarn. It has around 100 employees.

4.2 Succession process

The interview was conducted with four business inheritors. Each family business has pass through 1 generational change, which means that the first generation of each family business participants are the founder of the company and also all of heirs are second generation of family business. All family businesses that cooperate with this research are in the same industry, which is manufacturing industry. There are one constraint for this research that the real name of each family businesses are not able to reveal the due to the fact that some answers might contain sensitive issues and internal issues about the secret of family business and also the information about the relationship and conflict within family member and non-family member of family business. Therefore each company would be replaced the name with company A, company B, company C and company D.

4.2.1 The succession process of company A

The succession process of company A was planned in advance as well as the communication to both family member and non-family, who are working in the business during that time. Due to the oldest one among siblings, the eldest sister was assigned to be the next successor as well as both management team and production team already perceived that who was going to be the next successor. The heir development phase for this company is not strictly set, the father did not require any educational background and experience from outside company. The heir only graduated the high school level and did not have any work experience outside the company. The third phase, heir involvement in family business, since she entered family business, she studied the working process from the beginning production

operation to finishing process. She also learned the management process side by side with the incumbent. There was some leadership delegation during the involvement process as the father always assign some responsibility to his daughter, for example, the daughter would plan the workers to work in each machine station. The next phase is leadership succession will result in the willingness to let go of authority of father to his daughter. This phase took 20 years to allow daughter to take 100% control of business because the predecessor was not willing to let go of the business that he found by his own hands. After that, the oldest daughter took the place as business successor. The last phase is the relationship management with family member and non-family member in organization. The relationship management was done quite well. After the heir took the management position, she can operate work without any conflicts between both family member and non-family member in workplace.

4.2.2 The succession process of company B

The succession of company B was also planned in advance. The predecessor also communicated to his employees that there will be the heir to take over his legacy. There was one thing that company is different from other participants. The founder of company B was the older brother, which means that the successor of this family business was the younger brother. For the heir development, the incumbent required that heir to graduate the bachelor degree first in order to take his place. Although there was no need for experience outside the company to be the next business owner, the heir also work in the same industry of his family business for 2 years before enter to family business. The involvement that heir did was 5 years of training side by side with his older brother. He had study in the bottom-up way. Although he had experience in this industry before he entered family business, He still studied from the beginning process until the end process of his family business. Along the 5 years of involvement, there were some leadership delegations as the heir took some responsibility on some duty that used to be the work of the incumbent such as made simple decision in production line. For leadership succession phase, after 5 years of training, the founder decide to let his younger brother to replace his position and allow 100% decision and control of the company. The relationship management also

went well with company B's succession as no sign of conflict and miscommunication after the heir gain all control and decision.

4.2.3 The succession process of company C

The succession of company C was also planned in advance as well as the communication from the predecessor to every people in the organization that who will take the ownership next from him. The predecessor of company C would choose his only son to take his place after he had retired. There is only one requirement for heir development phase that his only son need to pass is the bachelor degree. The heir himself decide to improve his educational background with the master degree in management before enter family business. During heir involvement process, the heir studied the process with bottom-up style like from the most beginning process until last process of his business. In the same time, the father always supervises his son as well as provides support and recommendation. The predecessor also delegated some responsibility to his son and allowed him to make simple decision in the beginning such as purchasing simple thing and allows his son to work on marketing of company. After 3 years of involvement, father decided to retire and let his son to take his place without any resistance. At the beginning, after the heir took his father place and run the business, employees were reluctant to obey his order due to the young age of heir. The heir proved himself by increase the profit of the company. Then those stubborn employees were suddenly believed in the new leader.

4.2.4 The succession process of company D

The succession of company D was planned in advance as well as other three companies. The founder has three sons but only the middle son who was interest and willing to run family business. The older brother and younger brother step aside and allow the middle son to take the business peacefully. Since the giving up the right of ownership of the oldest and the youngest sons, father planed that the second son would take his position after his retirement. Then the father communicated to every employees in the organization who going to take his position after the retirement. During the heir development phase, the founder only required the bachelor degree from his son in order to get in to the family business. There was no need of work

experience outside the company as the second has entered family business right after graduated in Bachelor degree. The heir involvement phase, as well as other 3 companies, the heir had to work from the bottom process up to the top process of the company. The founder also be a mentor for his son and delegate some responsibilities to his son along the 4 years of heir involvement phase. After four years of involvement in family business, the founder allowed his second son to took his position as the owner of business. Then the founder stepped back and also gave recommendation to his son when in needed. The relationship management phase, the heir performed the effective relationship management as can be seen that there was no severe conflict with both family member and non-family member in family business.

From the information above, all family businesses experience success in succession process as evidences of profitability and satisfied stakeholders. All heirs from each company provide the successful operation and result in profit increasing as well as business expansion. Each company expand their production line by increasing number of machinery as well as expanding the area of factory, which is considered as the profitability of family business. Not only expansion of machinery, they also increase the number of customers in the same time. They also remain good relationship with suppliers since the first year of they running family business until nowadays. This would result in the good relationship between stakeholders.

4.3 Result analysis

4.3.1 Succession phase analysis

This section will examine about the phase analysis that will compare among companies in the same phase. The result will illustrate the effective phase that will affect the success of generational change. The result will be analyzed base on the five phases that were mentioned in the methodology part.

As the planning phase, all companies planed the non-strict plan as we can see that each company mainly focused on communication to people in organization both family member and non-family member. There was no conflict or any disagreement on this phase for all four companies. Therefore the effective

communication will lead employees to aware of the next management generation and better acceptance of new owner from employees.

The development phase presented the different occurrences among these four firms. Only company A did not require any educational background from heir in order to run the company. For other three companies, the incumbents required at least a bachelor degree from heir before took the position. In contrary, the company A, which is the company that the heir works side by side with the founder for a long time before retirement. Although the company A's founder did not require any educational background or experience from the heir, the founder allow the heir to work side by side as well as learning skills and experience of founder. In other words, the heir of company A also got the educational background and work experience, which the founder directly passed his experience to his daughter. The results show that educational background is the minimum requirement that will lead to success succession

The third phase, heir involvement in family business, presents the same results for those four businesses. Each heir needs to learn his or her business process from bottom level up until the top level. The predecessors also supervise as well as delegate responsibility to heir from lower level until higher level along the involvement process. The heirs would gain work experience from this process. This process provides important empirical evidence that working side by side with predecessor would improve the capability of heir. In the same time, he also allowed heirs to engage in management process as each heir started to learn the business and built relationship with employees in organization.

The forth phase, leadership succession, presents the willingness to let go of business status of each incumbents. Only company A's incumbent spent long period of time on this process, other companies spend only a few years to done this process. The results came out to be the same that predecessors will allow their heirs to run the business and let go of business status and management power. A completely let go of power, allow the new management generation to perform their new role in family business. That resulted in the success in both profitability and satisfaction of stakeholders.

The relationship management phase's result presents that all of employees in the organization accept the new leader. According to the involvement in family business process, I believe that the relationship management was developed during the involvement phase that heir need to work side by side with predecessor. During that time heir had chance to develop good relationship with people in organization. Also employees from each company showed the acceptance of the new leader. Although company C faced obstacles in the beginning of his succession, he proves himself by increasing profitability of the company. Therefore, I believe that relationship management can be done easily during involvement process. Besides developing relationship during involvement process, heir can also proves himself to employees to gain acceptance with profit increasing.

4.3.2 Four elements of successful succession analysis

According to Sharma work that indicates the successful succession would lead to the increase in the profitability of firm and the satisfaction of stakeholders of company. The heir of each firm increases the profitability of the family business as evidences of higher profitability and business expansion. Another point to consider is the satisfaction among stakeholders. The satisfaction of stakeholder would be the result of these four elements, willingness of predecessor to transfer business to heir, readiness of heir to take over the business, agreement on succession from family member and non-family member and acceptance of individual role of each family member and non-family member. I would like to match these four elements to the five phases of succession that developed by Bigliardi and Dormio (2009). Then discuss about the relevance of each element to those five phases and point out the important actions that support those elements.

The willingness of the predecessor to transfer the business to the successors can be matched with the planning and communication phase, the work delegation during the involvement phase and the leadership succession phase. The founder who is willing to let go of business would plan and communicate the succession to employees in company for both family member and non-family member. Also during the heir involvement process, each founder effectively delegated the responsibilities to their heir. As well as the leadership succession, the founder

completely allowed the heir to take his position and did not interfere with the new leader of family business except the suggestion requirement from the new leader. As the result that mentioned earlier, it satisfies the first element of successful succession of family business.

The readiness of successor to take over the business would be matched with the heir development phase and the heir involvement in family business. The ready heir would fulfill the requirement of the predecessor in terms of educational background. Furthermore, the readiness of heir would come from the involvement in family business, as the heir needs to work side by side with the predecessor and work in form of bottom-up process to learn from root to top process. As the result from phase analysis, all heirs from these four firms perform these two phases successfully without any obstacles that represent the readiness of these four heirs. Therefore, the successors of these four firms show that they can fulfill the readiness to take over the family business.

The agreement on succession from family member and non-family member can be matched with the planning and communication phase. All member of the organization would agree on the future leader of the company. As the result from phase analysis, it can be seen that there was no disagreement of family member on the succession process in any firm during the communication phase. The result of succession represents the third element, which is the agreement on succession from other family member.

The acceptance of individual role of each family member and non-family member can be seen on heir involvement in family business and management of relationships with family and non-family member. In order to serve this element, family member of each firm would accept the new leader and would intentionally obey the order from the new leader. From the result of phase analysis, there was no problem occur with family member but with non-family member. Although there was some minor problem occur with non-family member, the heir able to solve that problem and gain the acceptance from employee. The performance of these four firms satisfies the acceptance of individual roles of each family member and non-family member.

This table represents the relationship between the four components of successful succession and the five transitional phases.

Table 4.1 Comparison of 4 elements of successful succession and five transitional phases

The 4 components of successful succession (Sharma, 2001)	The matched transitional phases (Bigliardi and Dormio, 2009)
1. Willingness to transfer business	Planning and communication (1 st phase) Heir involvement in the family business (3 rd phase) Leadership succession (4 th phase)
2. Readiness to take over business	Heir development (2 nd phase) Heir involvement in the family business (3 rd phase)
3. Agreement of succession from family member and non-family member	Planning and communication (1 st phase)
4. Acceptance of individual role of family member and non-family member	Heir involvement in the family business (3 rd phase) Management of relationships with family and non-family member (5 th phase)

CHAPTER V

CONCLUSION

From the previous study, which present that only 30% of family business survive to the second generation and even worst, there is only 15% survive to the third generation. There would be the key success and effective transitional model to serve the problem about the failure in family business succession. This study is worked on the case studies on 4 successful small and medium size enterprises in Thailand that pass through the 1st generational change and survive. The result of successful succession is result in the profitability of the firm and the satisfaction of stakeholders of the firm. The empirical result of this study will present the critical factor that leads family business to successful succession as well as the effective model of the succession.

The critical factor for the successful succession are listed below

- The communication of the predecessor to employees in organization.

The predecessor needs to communicate the succession that he planned in advance to people in organization both family member and non-family member. This will reduce the conflict inside the organization and lead to successful inheritance.

- The readiness of the heir.

The predecessor would require the minimum educational background of the successor. The educational background will be the base of knowledge and decision making of the heir. On the other hand, the educational background will be the guarantee for the heir performance and can make heir gain acceptance from people in organization easily.

-The work experience with the predecessor inside the family company.

This factor is the most influential factor to the successful succession. All the time that heir start to learn family business side by side with the predecessor, he or she would understand the family business more as well as the heir can get familiar and develop good relationship with employees in company for both family and non-family member. Furthermore, the responsibility that the predecessor delegates to heir will assure the performance of heir and encourage he or she to become great leader.

-The willingness of predecessor to transfer business to heir.

After the heir pass through the involvement phase, predecessor need to let go of business status and management power in order to allow heir the full management power. This will make heir perform their best practice and gain trust from employees in company.

The effective model of succession is presented below.



Figure 5.1 The effective model of succession process.

From the model above, the relationship management is eliminated from the process. Because the relationship management can be develop during the involvement in family business phase.

Due to the narrow field of study that this study case examines only the process of succession, there are some factors that need further investigation to yield the more effective result. Although the success factor and effective model of successful succession has been studied, there are some other factors that need to further study in order to gain the prosperous succession (Peters, 2005) for example, motivation of the heir and ambitious career path of the heir.

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