Succession planning practices in private family firms: Survey evidence from Flanders

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ABSTRACT

Succession is one of the key challenges family firms have to deal with. As many family firms fail to survive their succession process, it is important to identify the succession challenges these firms face. This article therefore digs deeper into existing leadership and ownership succession issues in a sample of private Flemish family firms. In particular, it explores the timing and planning of both types of succession. Additionally, it discusses the reasons to postpone and the factors to stimulate leadership and ownership succession planning. Results are based on survey data of over 400 Flemish family firms. Results illustrate a lack of succession planning in many Flemish family firms, even when these firms expect a succession in the near future.

Keywords: family firms – leadership succession – ownership succession – succession planning

Eén van de grootste uitdagingen tijdens de levenscyclus van een familiebedrijf is de bedrijfsoverdracht. Aangezien verschillende familiebedrijven er niet in slagen deze bedrijfsoverdracht tot een goed einde te brengen, is het belangrijk inzicht te verkrijgen in het overdrachtsproces en in de uitdagingen die ermee gepaard gaan. Dit artikel geeft daarom inzicht in wanneer de overdrachten van leiderschap en eigenaarschap zullen gebeuren in een steekproef van Vlaamse private familiebedrijven. Bijkomend wordt nagegaan in welke mate deze overdrachten voorbereid en bediscussieerd worden. Tot slot wordt bewijs geleverd voor de factoren die de planning van de overdrachten kunnen belemmeren of net stimuleren. De resultaten in dit onderzoek zijn gebaseerd op enquêtegegevens van meer dan 400 Vlaamse familiebedrijven. De resultaten tonen aan dat in vele Vlaamse familiebedrijven een gebrek aan voorbereiding van de overdrachten heerst, zelfs wanneer deze bedrijven verwachten de aandelen en/of de leiding over te dragen in de nabije toekomst.

Keywords: familiebedrijven – overdracht leiderschap – overdracht eigenaarschap – planning bedrijfsoverdracht

1. INTRODUCTION

Struggling with succession is a well-known problem in organizations all over the world. Indeed, research has pointed out that succession represents one of the greatest challenges firms face during their life-cycle (Daspit, Holt, Chrisman, & Long, 2015). For family firms, the succession process may be even more complex and challenging due to the emotional involvement of family members in the firm (Chittoor & Das, 2007). Succession, which comprises 'the actions, events, and organizational mechanisms by which leadership at the top of the firm, and often ownership, are transferred' (Le Breton-Miller, Miller, & Steier, 2004, p. 305), has been one of the most widely investigated topics within the field of family business research (Calabro, Minichilli, Amore, & Brogi, 2018). When the succession process takes place, the family firm has to cope with significant changes. Family relationships need to be realigned, traditional patterns of influence are redistributed, and longstanding management and ownership structures need to be replaced with new ones (Lansberg, 1988). Additionally, family firms are confronted with a limited pool of talent, complex social ties within the family, and complicating emotional factors in the relationship between the incumbent and the potential successor (Le Breton-Miller *et al.*, 2004). Therefore, the rules of the game and processes for succession must be communicated early and clearly. Stated plainly and well in advance, the process and rules of the game will eliminate much of the uncertainty and delay (Calabro *et al.*, 2018; Michel & Kammerlander, 2015; Schepker, Ulrich, & Wright, 2018). In order to preserve family and organizational cohesiveness during the transfer of leadership and/or ownership, planning processes and mechanisms that provide a valid structure need to be developed. Indeed, researchers agree that anticipating succession and managing it as a planned process ensures continuity and prosperity of family firms (Kesner & Sebora, 1994; Sharma, Chrisman, Pablo, & Chua, 2001; Ward, 1987). These studies suggest that failure of the succession process is often due to unclear or even lacking succession plans. Since family firms are the dominant type of organizations in the world, it is important for the economy that these firms continue to contribute to wealth creation. When family businesses face succession, it is thus of crucial importance that they succeed in their succession process to safeguard their continuity and prosperity (Long & Chrisman, 2014).

In Belgium, many family firms expect a transfer of ownership and/or leadership within the next five years (FBN Belgium, 2018). Since a consistent failure of succession would be devastating for the Belgian economy (Lambrecht & Molly, 2011), it is important to get insight in the current succession challenges family firms face. This article therefore provides evidence on succession issues in micro, small, and medium-sized family firms situated in Flanders. In particular, we highlight to what extent Flemish family firms adopt succession planning practices for both leadership and ownership succession.

The contributions of this article are twofold. First, this article contributes to current succession literature by providing insight into the current succession challenges family firms face. It focuses on both leadership and ownership succession and shows that more uncertainty is present around the latter. Second, it illustrates which factors may impede or encourage the level of succession planning in family firms.

The structure of this article is as follows. Sections 2 and 3 explain the methodology of the data collection and the general characteristics of the sample firms. Sections 4 and 5 provide an overview of findings concerning leadership and ownership succession respectively. Section 6 concludes.

“There is more uncertainty around ownership succession than around leadership succession.”

2. METHODOLOGY

2.1. Population

The population of interest for this article contains all non-listed micro, small, and medium-sized family firms located in the Flemish region of Belgium. In this region, about 78% of all firms are family firms (Lambrecht & Molly, 2011). These family firms account for 45% of total employment and for one third of gross domestic product. One fourth of them expect a transfer of leadership and/or ownership within the next five years (FBN Belgium, 2018). Indeed, the fact that many Flemish family firms are close to a business transfer has often been the subject of numerous press articles, training programs, and information sessions in recent years.

2.2. Data collection

Data was collected by means of two surveys sent to Flemish privately-held firms in 2015. The **first survey** was a postal survey. This survey was sent to a selection of firms of which data were available in the *Verrijkte KruispuntBank Ondernemingen (VKBO)*. From the *VKBO* database, firms were selected that exist at least 20 years and are managed by a CEO aged 50 or higher. Next, we selected 4,100 mailing addresses through stratified random sampling according to firm size (micro, small, and medium-sized firms) to which the postal survey was sent. In order to increase the response rate and the completeness and reliability of data, we assured confidentiality in a cover letter that accompanied the survey. After one month, reminders were sent to nonresponding informants. After the follow-up, a total of 590 completed surveys were received (i.e. a response rate of 14.4%).

At the end of the first survey, we asked respondents whether they were interested to participate in a **follow-up survey**. The purpose of this follow-up survey was to gain deeper insight into the antecedents of succession (planning). The follow-up survey was an online survey created in *Qualtrics*. In the postal survey, 380 respondents indicated that they were willing to participate in the online survey. After sending two reminders, 187 surveys were received. 32 of these surveys were not fully completed so they were deleted from the final sample.

In the following sections, analyses[1] are based on data of the postal survey unless explicitly specified that data from the

1 Since not all respondents answered all questions, the number of respondents varies per reported analysis.

online survey have been used. Starting from the 590 received postal surveys, we removed all cases with less than one employee or more than 250 employees (38) based on the staff headcount definition of the EU recommendation 2003/361 since the focus lies on micro, small and medium-sized firms. In addition, we dropped eight very late respondents resulting in a sample of 544 private firms. The focus group of this article are family firms. However, since it is difficult to ex-ante determine whether a firm can be classified as a family firm or not, respondents are a mix of family and nonfamily firms. A firm is classified as a family firm when the firm is family-managed and they identify themselves as a family firm (Westhead & Cowling, 1998) or when the firm is family-managed and at least 50% of the shares are owned by a single family (Chua, Chrisman, & Sharma, 1999). According to this definition, the general sample for the analyses based on data from the postal survey consists of 458 private family firms. For the analyses based on data from the online survey, a final sample of 155 private family firms remains.

To test for potential nonresponse bias, we compared early and late respondents using an analysis of variance, assuming that late respondents are more comparable to nonrespondents than early respondents (Rogelberg & Stanton, 2007). We found no statistically significant differences between early and late respondents for several firm characteristics of this study, indicating that our results are unlikely to be affected by a nonresponse bias. In dealing with a potential social desirability bias (Podsakoff, MacKenzie, & Podsakoff, 2012), we assured the participants of complete confidentiality which enhances the probability of truthful and well-considered answers.

3. GENERAL CHARACTERISTICS OF THE SAMPLE FIRMS

This section explores general CEO and firm characteristics of our sample of private family firms situated in Flanders.

3.1. General CEO characteristics

Figure 1 shows the age of the CEOs in our sample. It indicates that 86.2% of the CEOs reached the age of 55; 15.1% is even older than 65. On average, the CEOs in our sample are already active in their firm for 30 years. Figure 2 provides more information on the percentage of shares owned by the CEO. It indicates that 62.2% of the CEOs own more than 50% of shares and 27.5% of the CEOs are even the sole owner of the firm.

Figure 1: CEO age in years (N = 450)

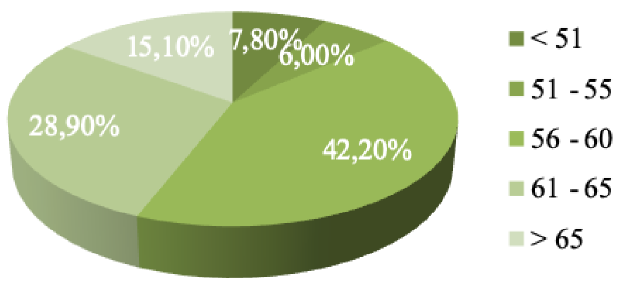
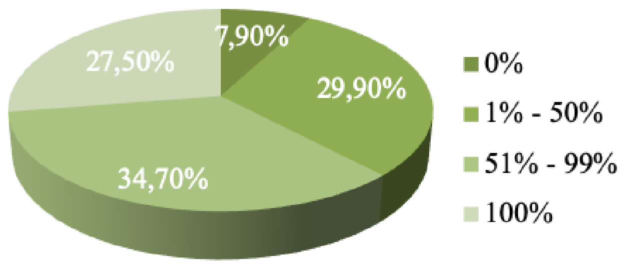


Figure 2: Shares owned by the CEO (N = 444)



3.2. General firm characteristics

Based on the staff headcount definition of EU recommendation 2003/361, our sample consists of 224 micro firms (number of employees < 10), 169 small firms (number of employees between 10 and 50), and 65 medium-sized firms (number of employees between 51 and 250). The majority of the firms are classified in the sectors 'Wholesale and retail' (33.70%) and 'Services' (26.20%). The sectors 'Industry' (22.20%) and 'Construction' (17.90%) are sufficiently represented as well.

In the context of family firms, it is also valuable to know which generation is in control of ownership and leadership (Brun De Pontet, Wrosch, & Gagne, 2007). In 58.1% of the family firms the majority of shares is owned by a second, third, or higher generation. In 50.6% of the family firms, management is controlled by a second, third, or higher generation. Hence, these firms are familiar with the topic of succession.

With regard to ownership structure, findings show that 96.9% of the family firms have between one and five shareholders. With regard to corporate governance, we observe that 67.3% has a board of directors or advisors. Besides a board of directors, family firms can establish family governance mechanisms that consider the multiple roles that family members play within the family and the firm. These mechanisms may prevent or reduce harmful conflicts among family shareholders (Berent-Braun & Uhlaner, 2012; Suess-Reyes, 2017). Code Buysse II, the Belgian corporate governance code for non-listed firms, contains specific recommendations for family businesses: it encourages family businesses to implement family governance mechanisms such as a family forum and/or a family charter (Michiels, Voordeckers, Lybaert, & Steijvers, 2017). Our findings show that only 40 family firms have a family council and only 42 family firms have a family charter. Among these, there are 22 family firms which have both a family council and a family charter.

There are two aspects to succession in family businesses – the transfer of leadership and the transfer of ownership (Le Breton-Miller *et al.*, 2004). Prior studies indicate that there is no clear distinction between leadership and ownership succession, although a differentiation, both empirically and theoretically, is required (Baù, Hellerstedt, Nordqvist, & Wennberg, 2013). Ownership succession involves the distribution of shares (Blumentritt, Mathews, & Marchisio, 2013). Several typical issues family firms need to cope with in handling ownership succession concern legal aspects and instruments to transfer ownership rights such as family acts or trusts, business valuation and tax planning (Songini, Gnan, & Malmi, 2013). Leadership succession, on the other hand, covers the identification and development of the new CEO to meet all future leadership needs. It is a transfer of responsibility for the ongoing management of the family firm (Blumentritt *et al.*, 2013; Calabro *et al.*, 2018; Schepker *et al.*, 2018). Section 4 discusses leadership succession while section 5 addresses ownership succession.

“The planning of the succession does not get sufficient consideration.”

4. LEADERSHIP SUCCESSION

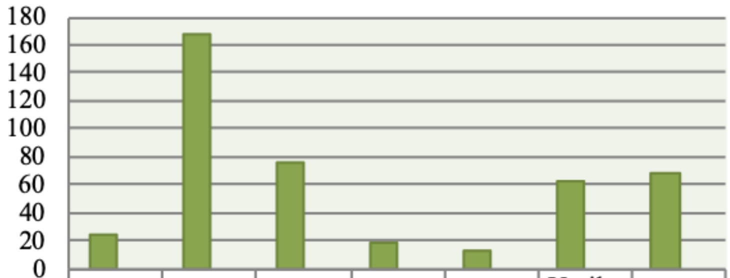
Leadership succession is the transfer of management control from the current CEO to the successor (Kesner & Sebora, 1994). It is a challenging process for any organization affecting both the members of the organization and the firm's economic and political climate (Kesner & Sebora, 1994) which explains the amount of attention given to the topic.

In the following subsections, we will discuss the timing of retirement (4.1), the state of leadership succession planning (4.2), the discussion regarding leadership succession (4.3), and the reasons to postpone and the factors stimulating leadership succession planning (4.4 and 4.5).

4.1. Timing of retirement

In order to give a meaningful overview of the general descriptive statistics with regard to leadership succession and in line with prior studies (e.g. Brun De Pontet et al., 2007; Gagnè, Wrosch, & Brun De Pontet, 2011), we narrow the sample down to CEOs who are older than 50 because the age of 50 is a key age in life at which CEOs start to think about their future and succession planning becomes much more relevant (Gagnè *et al.*, 2011; Strike, 2012). The statutory retirement age in Belgium is 65 years. However, it is known that many CEOs stay longer at the head of their company. This trend is also noticeable in our sample. As shown in Figure 3, nearly one out of four CEOs expect to stay longer at the head of the company than the age of 65. 15.74% of the CEOs do not have any idea at what age they want to retire. Surprisingly, almost 60% of these CEOs already reached the age of 60. Figure 3 also shows that there are several CEOs (14.58%) who expect to stay at the head of the family firm until a certain event occurs such as illness, readiness of the next generation, or identification of a successor.

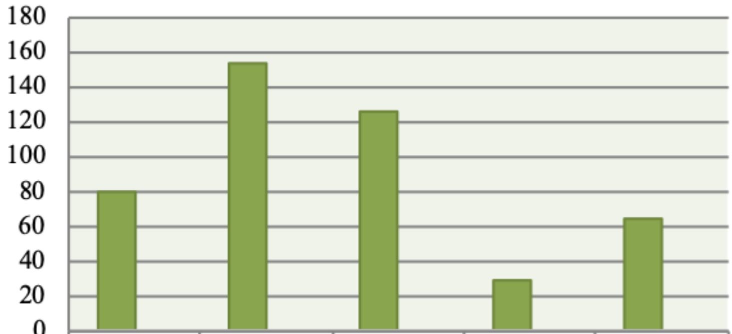
Figure 3: Expected age on moment of leadership succession (N = 432)



	< 60 years	61 - 65 years	66 - 70 years	> 70 years	For the rest of my life	Until a certain event occurs	I have no idea
Absolute frequency	25	167	77	18	14	63	68
Relative frequency	5,79%	38,66%	17,82%	4,17%	3,24%	14,58%	15,74%

Respondents were also asked within how many years they expect to retire. Figure 4 shows that 51.8% of the respondents expect to transfer the leadership position within five years. 17.8% even expect a transfer within the next two years. In line with the findings shown in Figure 3, Figure 4 displays that 14.2% of the CEOs do not know yet when they are going to hand over the torch.

Figure 4: Expected time until leadership succession (N = 450)



	0 - 2 years	3 - 5 years	6 - 10 years	> 10 years	Unknown
Absolute frequency	80	153	125	28	64
Relative frequency	17,80%	34,00%	27,80%	6,20%	14,20%

4.2. Leadership succession planning

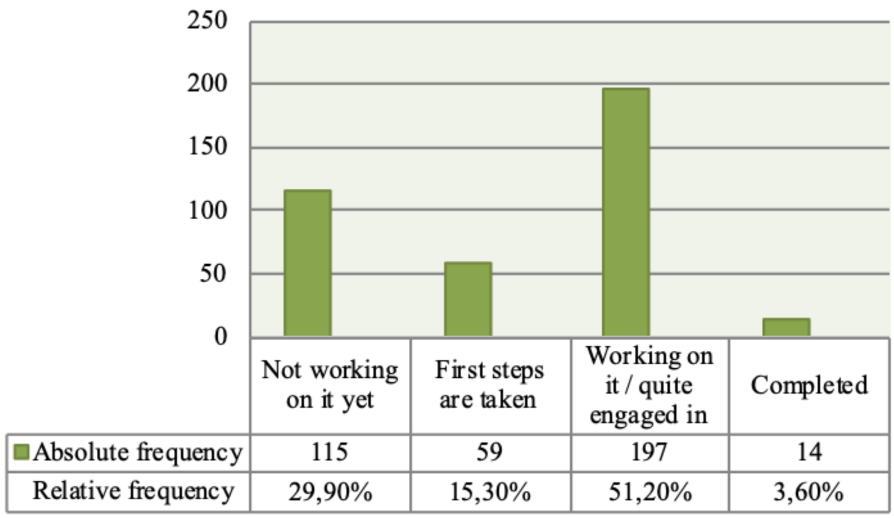
As indicated earlier, it is of vital importance that leadership succession is planned in advance (Le Breton-Miller *et al.*, 2004). Since Figure 4 indicates that the majority of CEOs expect to transfer the leadership position within the next five years, the question arises whether they are concerned with the planning of their leadership succession. In order to measure to what extent family firms are concerned with leadership succession planning, we use the scale developed by Sharma, Chrisman, and Chua (2003). The scale shown in Table 1 consists of 12 items that gauge to the level of succession planning. Respondents were asked to tick their answer on a five-point Likert scale with 1 = not engaged in this item yet, 2 = first steps are taken, 3 = in the middle of it, 4 = far advanced, and 5 = completed. Cronbach alpha for the scale of the level of succession planning is 0.97. Since this Cronbach alpha exceeds the threshold of 0.70 (Nunnaly, 1978), the internal consistency and reliability of this scale is confirmed.

Table 1: Items to measure succession planning (Sharma *et al.*, 2003)

Successor selection and training	
1.	A list of potential successors has been developed.
2.	Explicit succession criteria have been developed for identifying the best successor.
3.	Explicit efforts have been made to train potential successors for their future role in the business.
4.	Explicit attention has been given to familiarize the potential successors with the business prior to the succession.
5.	Explicit attention has been given to familiarize the potential successors with the employees of the business prior to the succession.
Post-succession business strategy	
1.	We have an understanding of what the business strategy will be after leadership has been transferred to the successor.
2.	We have an explicit plan for the business after the transfer of leadership to the business.
Post-succession role of incumbent	
1.	We have a formal plan regarding my roles and responsibilities in the business, once the leadership role has been passed on to the successor.
2.	We have an unwritten understanding of my roles and responsibilities after the leadership has been passed on to the successor.
3.	A financial package has been developed for my retirement.
Dissemination of the succession decision	
1.	The decision of who the successor will be has been clearly communicated to family members active in the business.
2.	The decision of who the successor will be has been clearly communicated to the key employees.

Figure 5 gives a general overview of the level of succession planning in our sample firms. When the firm answered '1' on all 12 items, we assume the firm is not concerned with succession planning yet. When the firm answered '2' on at least one of the items and not once '3' or more, we assume that first steps are taken to plan the succession. When the firm answered '5' on all 12 items, we assume that succession planning is complete. All other combinations are categorized to be working on succession planning. Figure 5 shows that 51.2% is quite engaged in leadership succession planning. Surprisingly, 29.9% of the family firms are not engaged in succession planning yet. When we split these numbers according to the size of the firm, micro firms plan their leadership succession less than small and medium-sized firms (SMEs): 41.8% of micro firms are not engaged in succession planning yet while this holds for only 18.9% of SMEs. These findings are in line with existing literature (Motwani, Levenburg, Schwarz, & Blankson, 2006) which discloses that larger firms are more likely to plan their succession.

Figure 5: Level of succession planning (N = 385)



When we look at the degree of strategic planning which we examined in the follow-up survey, descriptive statistics show that 65.2% of the respondents (101 of 155 respondents) evaluate firm strategy only informally. In 133 of 155 firms (72.9%), there is no written strategic plan. This lack of formalization can explain why many firms in our sample are hardly busy with succession planning.

Whether the lack of leadership succession planning is problematic depends on the expected time wherein leadership succession will take place. Table 2 indicates that 8.6% of the firms wherein the CEO would like to retire within the next two years is not engaged in succession planning. In case the CEO would like to retire within three to five years, 21.1% is not engaged in succession planning yet. Hence, almost one out of five firms in which the expected term of the transfer of leadership is within the next five years is not concerned with succession planning. These numbers are quite worrying since it is known that succession planning may be of vital importance for the survival of the firm (Gilding, Gregory, & Cosson, 2015). In addition, prior studies suggest that succession planning and the shift of authority that follows typically takes five to seven years (Le Breton-Miller *et al.*, 2004; Ward, 1987). Others even recommend to plan the succession well in advance mentioning a time frame of 20 years (Barach & Ganitsky, 1995). Of course, larger firms may have more (time) resources available to start planning the succession long in advance (Le Breton-Miller et al., 2004; Motwani *et al.*, 2006).

Table 2: Level of succession planning and expected time until leadership transfer (N = 383)

	Expected time until leadership transfer									
	0 – 2 years		3 – 5 years		6 – 10 years		>10 years		Unknown	
Leadership succession planning	N	%	N	%	N	%	N	%	N	%
Not working on it yet	5	8.6%	27	21.1%	43	37.1%	10	38.5%	29	52.7%
First steps are taken	5	8.6%	19	14.8%	22	19%	7	26.9%	6	10.9%
Working on it	42	72.4%	78	60.9%	49	42.2%	9	34.6%	18	32.7%
Completed	6	10.3%	4	3.1%	2	1.7%	0	0%	2	3.6%
Total	58	100%	128	100%	116	100%	26	100%	55	100%

4.3. Discussing leadership succession

While some family firms are already planning the transfer of leadership, others are not. As indicated earlier, this lack of planning may be detrimental for the future of the firm (Le Breton-Miller *et al.*, 2004). Nonetheless, the possibility exists that the family firm has already been discussing the succession with someone even though it did not engage in succession planning yet. From our sample, we know that 74.6% of the CEOs discussed the transfer of leadership with at least one person. Table 3 zooms in on this group of CEOs and displays with whom exactly they discussed the topic. It shows that the topic of leadership succession is mostly discussed with family members who own shares in the family firm, accountants, and advisors specialized in succession. Only in 10.2% of the family firms, the succession was discussed in detail with the potential successor. In the category 'others', respondents referred to financial institutions, management, and notaries.

Table 3: Discussion of the transfer of leadership with various parties (N = 315)

	Topic discussed superficially		Topic discussed in detail		Total	
Discussion of leadership succession	N	%	N	%	N	%
with family members who are shareholder	128	40.6%	91	28.9%	219	69.5%
with family members who are not shareholder	69	21.9%	40	12.7%	109	34.6%
with other shareholders outside the family	21	6.7%	8	2.5%	29	9.2%
with potential successors	72	22.9%	32	10.2%	104	33.1%
with an accountant	134	42.5%	94	29.8%	228	72.3%
with an advisor specialized in succession	67	21.3%	63	20%	130	41.3%
with fellow CEOs	67	21.3%	13	4.1%	80	25.4%
with others	14	4.4%	4	1.3%	18	5.7%

4.4. Reasons to postpone the planning of the leadership succession

As noted in section 4.2, many family firms in our sample are not engaged in succession planning yet. Prior studies already indicated that there are several reasons why family firms may postpone or ignore the planning of the leadership succession (De Massis, Chua, & Chrisman, 2008). In family firms, the CEO's inability to let go of the family firm is said to be one of the main reasons for postponing succession planning (Filser, Kraus, & Märk, 2013). Many family CEOs experience the feeling of being unable to let go of the family firm because they devoted most of their time to the family firm and now have to let go of their life's work (Gagnè et al., 2011). Because of their long-term commitment to the firm, these family CEOs are strongly attached or psychologically tied to the firm which increases the emotional value associated with the family firm (Zellweger & Astrachan, 2008). The family CEO may fear retirement, the loss of status in the family and the firm, and the loss of one's identity. Additionally, he or she is confronted with the idea of growing old and the idea of mortality which stimulate feelings of sadness (Gagnè *et al.*, 2011). The family CEO's identification with the family firm and further his or her inability to let go of the firm can drive his or her resistance to succession planning (Filser *et al.*, 2013).

In Table 4, the relationship between these two variables is highlighted. Findings in this table are only for those family firms in which the CEO expects to retire within the next five years as for them, it is important to be engaged in succession planning. In order to measure the CEO's inability to let go, we use the five-point Likert scale proposed by Sharma, Chua, and Chrisman (2000, p. 244): 'I do not want to let go of the leadership of the business' and 'I have the feeling that my presence in the company is necessary to keep the business running'. Cronbach alpha for this Likert scale is 0.71. Since this Cronbach alpha exceeds the threshold of 0.70 (Nunnaly, 1978), the internal consistency and reliability of this scale is confirmed. In Table 4, the ability to let go is defined as 'not so difficult to let go' when the sum of the two items lies between 2 and 4, as 'on average difficult to let go' when the sum of the two items lies between 5 and 7, and as 'very difficult to let go' when the sum of the two items lies between 8 and 10. The numbers show that when the CEO has a hard time letting go of the family firm, the family firm is not yet engaged in succession planning in 25.9% of the cases. In case it is not so difficult for the CEO to let go of the family firm, the family firm is not yet engaged in succession planning in 13.6% of the cases. The reverse logic holds for those firms that are quite engaged in succession planning. These findings are in line with expectations. The harder it is for the CEO to let go of the family firm, the higher the chance that the planning of the succession will be ignored or postponed.

Table 4: Leadership succession planning and ability to let go of the firm
(subgroup: expected retirement of the CEO between zero and five years, N = 163)

	Difficulty to let go of the firm					
	Not so difficult		Average		Very difficult	
Leadership succession planning	N	%	N	%	N	%
Not working on it yet	6	13.6%	10	16.4%	15	25.9%
First steps are taken	10	22.7%	10	16.4%	19	32.8%
Working on it	19	43.2%	25	41%	16	27.6%
Completed	9	20.5%	16	26.2%	8	13.8%
Total	44	100%	61	100%	58	100%

Besides the CEO's inability to let go of the firm, there are several other factors that can hinder the succession planning process. We asked respondents in the online survey to indicate the most important elements hindering the planning of the leadership succession. We aggregate these responses into the following categories (in order of importance):

- Family reasons (such as children are too young, distributed ownership, family balance, children are not interested, and equality between children)
- Economic and financial reasons (such as insufficient profitability, lack of money, insufficient financing, poor business climate, and insecure future)
- Lack of knowledge on the topic of succession among the parties involved
- Excessive administrative responsibilities and lack of time (such as administrative hassles, complex legal framework, and time investment)
- Hard to find a suitable candidate
- Potential successor does not have enough experience yet

4.5. Factors stimulating the planning of the leadership succession

In addition to factors hindering leadership succession planning, there are also factors stimulating it. For instance, a well-developed governance structure can be very useful in the succession process (Lane, 2006; Umans, Lybaert, Steijvers, & Voordeckers, 2018). In the postal survey, respondents were asked to indicate on a five-point Likert scale to what extent the board of directors or advisors carried out certain tasks. Two tasks were related to the succession process: (1) report and resolve problems with regard to succession and (2) plan the transfer of the leadership position. Cronbach alpha for this Likert scale is 0.94. Since this Cronbach alpha exceeds the threshold of 0.70 (Nunnaly, 1978), the internal consistency and reliability of this scale is confirmed. The answers on these two tasks were summed into one score and categorized as follows. When the score lies between 2 and 4, we argue that the board of directors or advisors is lowly occupied with succession. Table 5 shows that 40% of those family firms are not planning the succession yet. When the score lies between 5 and 7, we argue that the board of directors or advisors is moderately occupied with succession. When the score lies between 8 and 10, we argue that the board of directors or advisors is highly occupied with succession. The findings in Table 5 suggest that a board of directors or advisors which is more occupied with succession may enhance the level of succession planning.

> “A lack of knowledge concerning the succession (planning) process still exists among CEOs.”

Table 5: Leadership succession planning and succession tasks of the board of directors/advisors (N = 261)

	Execution of succession tasks by the board of directors/advisors					
	Low		Moderate		High	
Leadership succession planning	N	%	N	%	N	%
Not working on it yet	30	40.0%	15	16.5%	15	15.8%
First steps	12	16.0%	14	15.4%	11	11.6%
Working on it	33	44.0%	60	65.9%	66	69.5%
Completed	0	0%	2	2.2%	3	3.2%
Total	75	100%	91	100%	95	100%

Family firms are known to pursue nonfinancial goals alongside their financial goals. These nonfinancial goals include the family firm's socioemotional needs also known as the family firm's aim to preserve socioemotional wealth (Berrone, Cruz, & Gomez-Mejia, 2012). One of these goals is the successful transfer of the firm to the next generation (Sharma et al., 2001). We expect that family firms who highly value the transfer of the firm to the next generation as an important goal are likely to be more engaged in planning the succession process (*cf.* Umans, Lybaert, Steijvers, & Voordeckers, 2019). Indeed, Table 6 indicates that 72.6% of the family firms who value a successful transfer of the firm to the next generation as an important goal, are quite engaged in the planning of the leadership succession (68.9%).

Table 6: Leadership succession planning and the goal of a successful transfer to the next generation (N = 295)

	Successful transfer to the next generation is an important goal					
	Not really		Neutral		Yes, totally	
Leadership succession planning	N	%	N	%	N	%
Not working on it yet	39	58.2%	9	23.7%	24	12.6%
First steps	14	20.9%	6	15.8%	28	14.7%
Working on it	14	20.9%	21	55.3%	131	68.9%
Completed	0	0%	2	5.3%	7	3.7%
	67	100%	38	100%	190	100%

5. OWNERSHIP SUCCESSION

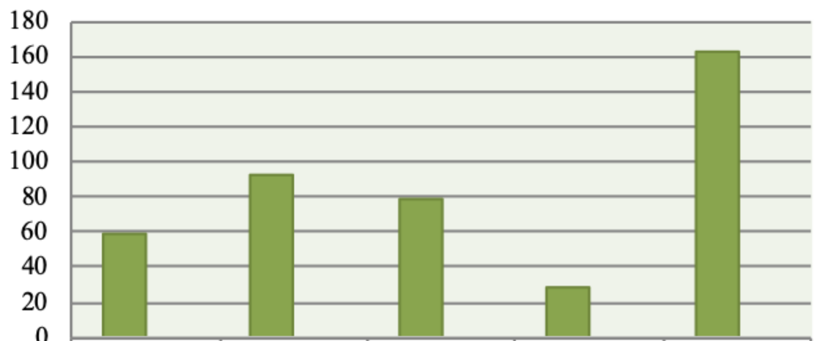
Succession is often defined as a deliberate and formal process facilitating the transfer of management control (e.g. Sharma *et al.*, 2001). Though sometimes, the transfer of management control and ownership control happen at the same time and may go hand in hand (Block, Jaskiewicz, & Miller, 2011). When we take into account the expectations for the future, more than half of the firms expect to transfer leadership and ownership together. However, 36.2% of the CEOs expect to first leave the CEO position and at a later time pass on the majority of the shares. A minority of 9.7% expects to do the reverse.

In the following subsections, we will discuss the timing at which the majority of shares will be transferred (5.1), the state of ownership succession planning (5.2), the reasons to postpone ownership succession planning (5.3), and the amount of discussion regarding ownership succession (5.4).

5.1. Timing of ownership succession

As shown in Figure 6, 36.1% of the sample firms expect to transfer more than 50% of the shares in the next five years. 14% already expects a transfer within the next two years. The transfer of shares thus clearly is a current topic in Flemish family firms. When comparing Figure 6 with Figure 4 (expected time until leadership succession), it stands out that 38.7% does not have any idea when they want to transfer the majority of shares while only 14.2% does not have any idea when they want to retire from the leadership position. Hence, there is more uncertainty with regard to the expected time until ownership succession compared to the expected time until leadership succession.

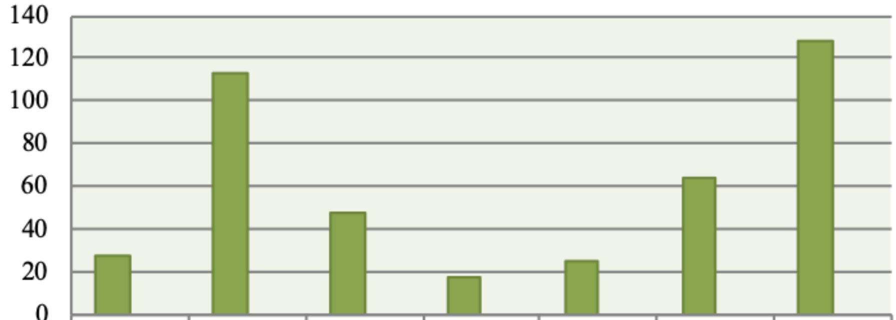
Figure 6: Expected time period within which the transfer of more than 50% of shares will take place (N = 421)



	0 - 2 years	3 - 5 years	6 - 10 years	> 10 years	Unknown
Absolute frequency	59	93	78	28	163
Relative frequency	14,00%	22,10%	18,50%	6,70%	38,70%

Figure 7 indicates that 30.4% of the CEOs do not have an idea until which age they want to retain their shares. 26.84% wants to retain shares until they reach an age between 61 and 65; 15.2% until they are older than 65. About 15.2% wishes to retain ownership until a certain event occurs such as retirement, takeover, or until the next generation is ready. Again, comparing the findings in Figure 7 to the ones in Figure 3 (retention of the leadership position), there seems to be more uncertainty about the age at which shares will be transferred than about the age at which leadership will be passed on.

Figure 7: Expected age until which the majority of shares will be retained (N = 421)

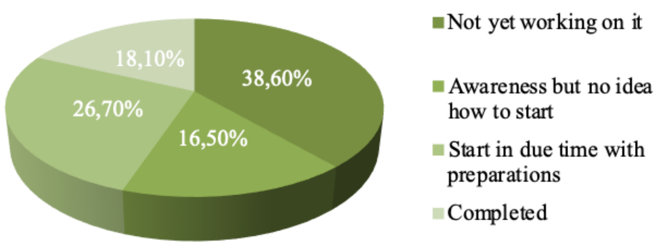


	< 60 years	61 - 65 years	66 - 70 years	> 70 years	For the rest of my life	Until a certain event occurs	I have no idea
Absolute frequency	27	113	47	17	25	64	128
Relative frequency	6,41%	26,84%	11,16%	4,04%	5,94%	15,20%	30,40%

5.2. Ownership succession planning

Since more than one third of the firms expect a transfer of the majority of shares within the next five years, it is important to investigate to what extent these firms are planning the transfer. Figure 8 indicates that 26.7% of the firms will start in due time with the necessary preparations. 16.5% of the firms realize that they have to start planning but they do not know how to start. Many CEOs are not engaged in ownership succession planning yet (38.6%) whereas several CEOs already completely finished the necessary preparations (18.1%).

Figure 8: Planning ownership succession (N = 430)



In order to provide a meaningful overview of the group that is not yet engaged in planning ownership succession, we combine the information from Figure 8 with the expected time until the succession. Table 7 indicates that one out of four firms that like to transfer the majority of shares within the next five years are not yet working on the planning of the ownership succession or do not have any idea how to start planning for the ownership succession. 46.4% of the firms that want to transfer the majority of shares within the next two years completed all preparations for this transfer. Also, for those expecting to transfer the majority of shares within the next two years and between the next three to five years, 41.1% and 53.3% of the firms will start the planning process at short notice.

Table 7: Planning ownership succession and expected time of ownership succession (N = 406)

	Expected time until the transfer of the majority of shares									
	0-2 years		3-5 years		6-10 years		>10 years		Unknown	
Ownership succession planning	N	%	N	%	N	%	N	%	N	%
Not yet working on it	4	7.1%	12	13.3%	29	37.7%	12	42.9%	98	63.2%
Awareness but no idea how to start	3	5.4%	17	18.9%	20	26%	7	25%	20	12.9%
Start in due time with preparations	23	41.1%	48	53.3%	20	26%	6	21.4%	16	10.3%
Completed	26	46.4%	13	14.4%	8	10.4%	3	10.7%	21	13.5%
Total	56	100%	90	100%	77	100%	28	100%	155	100%

5.3. Reasons to postpone ownership succession planning

As there are reasons to postpone leadership succession planning, there are also reasons to postpone the planning of the ownership succession (Sund, Melin, & Haag, 2015). In the online survey, respondents were asked which elements may hinder the planning of the ownership succession. We combine these answers into the following categories (in order of importance):

- Financial reasons (inheritance rights, high takeover price, CEO has no insurance, too expensive, otherwise insolvent)
- Not yet on the agenda or not willing to stop
- Family reasons (inheritance rights, children do not get along, successor is not ready yet, children are too young, equal rights)
- Unfavorable financial and market conditions (poor business climate, insecure future)
- Lack of a suitable successor
- Lack of knowledge
- Administrative reasons

5.4. Discussing ownership succession

Following the same reasoning as with leadership succession, the possibility exists that some family firms already have been discussing ownership succession with someone even though they did not engage in some form of planning yet. These discussions are already a move in the right direction. In 62.3% of the family firms, ownership succession has already been discussed with someone. Table 8, which focuses on that group of firms, shows that 71.6% discussed the ownership transfer with their accountant. Also family members who are shareholder are frequently involved in the discussions concerning ownership succession (64.8%). Nearly one third indicates that ownership succession has been discussed with the potential successor. The category 'others' includes financial institutions, notaries, and management.

Table 8: Discussion of transfer of ownership with several parties (N = 327)

	Topic discussed superficially		Topic discussed in detail		Total	
Discussing ownership succession	N	%	N	%	N	%
with family members who are shareholder	126	38.5%	86	26.3%	212	64.8%
with family members who are not shareholder	70	21.4%	37	11.3%	107	32.7%
with other shareholders outside the family	28	8.6%	11	3.4%	39	11.9%
with potential successors	74	22.6%	31	9.5%	105	32.1%
with an accountant	134	41%	100	30.6%	234	71.6%
with an advisor specialized in succession	75	22.9%	69	21.1%	144	44%
with fellow CEOs	65	19.9%	9	2.8%	74	22.6%
with others	20	6.1%	4	1.2%	24	7.3%

Table 9 digs deeper into the use of shareholder agreements. Findings illustrate that a quarter of the family firms in our sample have set up a shareholder agreement. Especially firms with three or more shareholders have one. Table 9 shows that firms which are not yet planning ownership succession or which are aware of the value of planning but do not know how to start, are the ones who do not have shareholder agreements (about 80% in both cases). According to the findings in Table 9, the use of a shareholder agreement thus seems to facilitate the planning of ownership succession.

Table 9: Planning ownership succession and shareholder agreements (N = 422)

	Shareholder agreement			
	No		Yes	
Ownership succession planning	N	%	N	%
Not yet working on it	134	82.2%	29	17.8%
Awareness but no idea how to start	59	83.1%	12	16.9%
Start in due time with preparations	84	74.3%	29	25.7%
Completed	41	54.7%	34	45.3%
Total	318	75.4%	104	24.6%

6. CONCLUSIONS

This article provides an overview of leadership and ownership succession issues in Flemish family firms based on data collected through a postal survey and an online survey completed in 2015.

6.1. Theoretical implications

As illustrated by the findings in this article, succession is a prevailing challenge among the group of family firms. This article contributes to current succession literature by providing insight into the current succession challenges family firms face. Findings illustrate a lack of succession planning in many family firms, even when these firms expect a succession in the near future. This lack of planning can be detrimental for the future of the family firm (Schepker *et al.*, 2018). In order to stimulate succession planning, researchers can further examine the factors that hinder or encourage the succession planning process. Although several researchers already found obstructing and stimulating factors (e.g. De Massis *et al.*, 2008; Gilding *et al.*, 2015; Umans *et al.*, 2018), there are still some factors to explore. For instance, since our findings illustrate that three quarter of the family firms do not have a written strategic plan, one could argue that the level of professionalization is rather low in these firms (Blumentritt, 2006). This low level of professionalization may explain the lack of succession planning. Additionally, our findings illustrate that there is substantial illiteracy among the CEOs concerning the succession (planning) process. Therefore, it would be valuable to investigate whether and which type of advisors are able to assist in the succession process (Michel & Kammerlander, 2015).

6.2. Practical implications

For family CEOs, practitioners, and policy makers, it is important to be aware of the value of a well-developed succession planning process. Such a planning process can increase the likelihood of a successful leadership and/or ownership succession. Since many family firms in our sample are not yet planning their succession although they should, it is crucial to create awareness concerning the topic of succession. In addition, it should be highlighted that it is a lengthy process. In order to stimulate succession planning, family firms can install different governance structures according to their needs or improve the efficiency of the existing governance structures in the firm. On the one hand, family firms should be encouraged to establish and use family governance practices as these practices may reduce potential conflicts within the succession process and beyond. On the other hand, family firm owners and/or managers should be aware that a well-functioning board of directors is key in a family firm as it can assist the firm in planning the succession and convince different stakeholders of the need to plan. Furthermore, based on the advantages of a well-developed governance structure, it would be valuable to sensitize the use of governance mechanisms more. In Belgium, there is a corporate governance code, i.e. Code Buysse, for closely held (family) corporations which formulates recommendations concerning corporate governance (business governance and family governance) in private firms. Nevertheless, more awareness can be created. Furthermore, family business advisors can assume the role of a helpful guide for family CEOs during the succession process. They can support the CEO in this difficult process by making him or her aware that it is in the firm's best interests to plan the succession process, as the lack of a timely and adequate succession planning process will ultimately lead to discontinuation of the family firm.

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BIOGRAPHY

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