Intergenerational Survival of Family Businesses: Factors Affecting the Succession Success of Family Owned Businesses in Malawi

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Abstract
Family owned businesses make an important contribution to the social and economic development of communities and countries. The proportion of Malawians in formal employment is very small thus compelling a large portion of Malawians to set-up family businesses. The study aimed to investigate and analyse the factors that contribute to the low survival and success rate of Malawian family owned businesses after the exit of the businesses’ founder. The study used a case study format by studying fourteen family owned businesses that had gone through an intra-family succession in the past eight years- seven of the businesses had successful successions whilst the other seven had failed successions. Interviews and questionnaire survey were utilized to gather data. From the findings of the research the study discusses the key factors influencing the failure of family business succession. The study makes recommendations to help improve the continuity and survival of family owned businesses in Malawi.

Keywords: Family businesses; management succession; general management; business continuity; Malawi

1.0 Background
Family owned businesses make a substantial contribution to the social and economic welfare and development of societies, countries, and regions in the world. Family owned businesses are an important source of wealth creation and employment growth (Ward, 2004). Cespedes and Galford (2001) write that family businesses make up forty percent of the Fortune 500 companies in the United States of America, generate about two thirds of the German Gross Domestic Product (GDP), employ about one-half of the labour force in Britain. The situation in developing countries is no different. In India seventy percent of the country’s 250 largest private companies’ sales and net profits are derived from dealing with family enterprises (Sharma and Rao, 2000). The contribution of family enterprises to the GDP of Asian nations is large, with the following rates: South Korea 48.2%, Malaysia 67.2%, Taiwan 61.6%. Family owned business differ in many aspects including size (as measured by number of employees, sales, profits etc.), level of technology use, reach (with operations locally, nationally, regionally, or globally). Carsrud (1994) defines family owned businesses as ones in which both ownership and policy making are usually dominated by members of an “emotional kinship group”. Daily and Dollinger (1991) concur with Carsud (1994) when they state that the common characteristic of family owned businesses is that the ownership cannot be separated from its management. Chrisman et. al. (1999) define a family business as an enterprise managed with the primary motive of molding and pursuing the business vision of controlling members of a family or group of families in a manner that is likely to sustain and enhance that vision from generation to generation of the owning families. Ibrahim et. al.(2003) state that one characteristic of family owned businesses is that the transfer of ownership to the next generation of family members is anticipated. Thus among the characteristics of family businesses is the high anticipation of transfer of leadership and ownership to the next generation of family members. Ubiquitous as family businesses are few successfully manage the succession to the second or third generation of family members and the succession process and period is riddled with risks and set-backs. The failure of family businesses to survive the succession process is noticeably high in Malawi and in-order to ensure the success and full contribution of family businesses to the socio-economic development of Malawi it is important to study and understand issues and factors influencing the successful succession and inter-generational survival of family businesses in Malawi.

2.0 Problem Statement
Malawi is a country where the majority of the population is not in formal employment and thus most people are compelled to start businesses of varied sizes and skill base. In addition, a large portion of those formally employed also partake in varied business ventures. However, when it comes to the condition of these businesses after the demise or retirement of their founders most of them do not succeed, grow, or survive. Most Malawian family
businesses rarely succeed or survive when left in the hands of the next generation of family members.

3.0 Research Objectives

The study aims to answer the question why most Malawian family businesses do not survive after the founder loses control of the business- through retirement, death, illness, old age or other forms of incapacitation.

4.0 Literature Review

In most studies on succession in family businesses it has been observed that not many family businesses survive the transition from first-generation to second-generation of family ownership and an even smaller percentage reaches the third generation. For example Beckerd and Dyer (1983) argue that in the United States of America only 30 percent of family businesses survive into the second generation and 10 percent into the third generation. In their study Barach and Gatinsky (1995) report that only 30 percent of family businesses survive into the second generation, whilst 14 percent function into the third generation as family businesses. Ward (2004) starkly pegs the failure rate for succession in family businesses at 70 percent.

The term succession in family business, as defined by Massis et al. (2008), refers to the situation where both the current leader who relinquishes a business’s managerial control and the successor who takes over are family members. Surdej (2010) points out that succession in family businesses is focused on dealing with the dilemma of how to preserve (and possibly increase) family wealth while at the same time ensuring the positive transformation (in terms of managerial, technical, operational etc. capacity) of a business. According to Brockhaus (2004) succession is a significant phenomenon in a family business’s life and an issue that requires analysis from the perspectives of the key stakeholder groups of the business: family members, management, employees, other non-family owners of the firm. Chrisman et al. (2003) argue that success in family business succession has the important implication of affecting and influencing the positive performance of the firm and satisfying its varied stakeholders. Chrisman et al. (2003) further argue that a successful family succession can help maintain the intrinsic and tacit business knowledge that family members have accumulated and that such knowledge helps family businesses maintain competitive advantage over non-family owned businesses.

Matthews et al. (1999) argue that one of the main reasons for the high rate of family business succession failure emanates from the business owners’ managerial incapacity to cope with the complicated procedure of passing over ownership as well as leadership of the business. These factors that are related to the incapacity and/or reluctance of the owner to enable smooth succession are termed incumbent related factors. Massis et al. (2008) argue that in a situation where an incumbent is too attached to the enterprise, the likely successor might not be granted the chance to acquire the skills or attain the experience and respect necessary to manage the business. Ibrahim and Ellis (2003) suggest that an owners’ reluctance is often due to a number of reasons such as emotional attachment to the business, fear of retirement, and lack of other interests and pastimes outside the business.

Other studies of succession come up with another set of factors that influence successful succession. These factors are termed successor related factors and they are concerned with the attributes of the successor. Most studies argue that the successors’ ability and interest to lead the business is linked with positive succession outcomes (e.g. Barach and Gatinsky, 1995). Massis et al. (2008) point out that if the likely successor does not acquire the requisite skills to assume the leadership of the enterprise, the succession may fail because the deficiency in skills may either lead to the successor declining the position or cause other key players to resist the potential successor. Thus for successful succession to take place, the successor must be adequately motivated and willing to face the challenges and opportunities lying ahead. As Sharma and Rao (2000) state, a willing and dedicated successor is a recipe for succession success.

Handler (1990) writes that succession in family businesses is not a one-off process but is a continuous, multi-staged and reciprocal interaction between the predecessor and successor. There ought to be concerted effort between the incumbent and the likely successor in a bid to develop the successor. Literature on family business succession emphasizes the importance of the relationship between the successor and the incumbent in determining the process, timing, and effectiveness of the succession (Brockhaus, 2004). Longenecker and Schoen (1978) assert that the transfer of leadership and management is a long one- potentially beginning in the childhood of the successor- with the two primary points in time being when the successor enters the business on a full-time basis and when the leadership role is transferred.

Research also suggests that chief among the main factors preventing successful intra-family succession is lack of
succession planning. Succession planning is defined as a deliberate and systematic effort to ensure leadership continuity in key positions, retain and develop intellectual and knowledge capital, and encourage potential individual successors (Davis, 1986). Dyck et. al. (2002) argue that the process of succession planning demands three steps: 1) identifying and analysing key tasks, 2) creating and assessing candidates and 3) selecting the right individuals who will fill the key positions. Succession planning should take into consideration the preparation level of successors. Family business heirs ought to have requisite business skills, managerial capabilities, knowledge of company operations, and the right attitudinal predisposition to handle the running of the business (Morris et. al., 1996). If family businesses are to transition from the founding owner to another family member there ought to be appropriate career advancement structures and succession plans in place.

Finally, conflict among members of the family is another key factor that can have a devastating effect on the success of succession in family businesses. Ellin (2001) writes that the failure of management to come to grips with disagreements that arise when family members closely work together can often cause the high level of succession failure. Levinson (1971) argues that there are likely to be extreme consequences from conflict among family members resulting in destructive effects to both the business and the family and that intra-family conflict discourages adequate planning and rational decision making in the business. Adding on this, Beckhard and Dyer (1983) suggest that the high mortality of family owned firms may be a direct result of failure to control intra-family conflicts.

In their study of family businesses Ibrahim and Ellis (1994) state that in the United States of America and Canada major sources of conflict in family businesses include: an unfair or hasty succession process; rivalries among family members, in particular between the founder and the offspring as well as between siblings; lack of clear guidelines concerning career advancement of family members; lack of proper boundaries between siblings; and differences in power and status among and between family and non-family members. Ibrahim and Ellis (1994) add that most family businesses lack conflict resolution skills and as such conflicts adversely affect succession and even appointment of family members to the company.

Most of the studies in the literature focusing on succession in family businesses are based on developed countries and though some of the literature argue that the general challenges affecting succession in family businesses are similar across countries and societies it is evident that family values, structures, and relationships differ across societies and countries. The wider economic, socio-cultural, legal, and historic conditions of a country would also influence matters of family business succession. This study thus intends to study succession in Malawian family businesses in-order to have a contextualized understanding of the issues and challenges in the Malawian setting.

5.0 Research Methodology

The research used the case study format as it studied and collected data from fourteen Malawian family businesses that operate (or operated) in varied sectors of the economy and that had all gone through a succession within the last eight years. Two businesses that were roughly of the same size at the time of succession were chosen per sector with one having had a successful succession and the other a failed succession. Thus seven of the business in the study had a failed succession – failed succession defined as the state where the business is -at the time of the study-no longer in existence, reduced its operations, no longer in the hands of the family. Another seven businesses (which acted as a sort of control sample) in the study had successful successions (i.e. the businesses are, at the time of the study, still operational, they are growing, they are still in family hands). The sectors the fourteen businesses operate in are: tobacco farming, commodity trading, general trading, fishing, engineering, tourism, transport and logistics. Interviews and a questionnaire survey were used to gather data for the study. The study interviewed and got feedback from the founders of the businesses (where they were still alive), the successor family leaders of the businesses, other family members, employees and former employees of the businesses, and representatives of other stakeholder organizations (e.g. financiers, suppliers, customers of the businesses) with a focus on getting study participant’s perceptions on the factors that had led to succession success or failure.

6.0 Results and Discussion

The study attempted to come up with possible reasons for the general inability of Malawian family owned businesses to survive, grow, and succeed after the departure of the businesses owner/founder. This was achieved by studying and comparing the experience of fourteen Malawian businesses that had gone through a family related succession- the succession led to continued business success in seven of the cases and business failure in the other seven.

From the study the following were observed as key causes of business failure after succession:
6.1 Lack of Planning

The results of the interviews with different stakeholders in the fourteen businesses show that the companies that had succession failure had poor planning or lacked any real planning at all for key organizational functions. The lack of and inadequacy in planning was observed both before the succession and after. In-order to get a picture on the level and depth of planning in the participating businesses questions were asked on the presence of planning in the key areas as depicted in Table 1 below.

Table 1: Percentage of Businesses that Showed Evidence of Planning in Key Areas Around the Period of Succession

<table>
<thead>
<tr>
<th>Planning Area</th>
<th>Collapsed Businesses</th>
<th>Successful Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year Before</td>
<td>Year After</td>
</tr>
<tr>
<td>Cash flow forecasts</td>
<td>Nil</td>
<td>40</td>
</tr>
<tr>
<td>Profit and loss</td>
<td>Nil</td>
<td>20</td>
</tr>
<tr>
<td>Sales/demand forecasts</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Estate planning</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Product/service costing</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Contingency planning</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Succession Planning</td>
<td>Nil</td>
<td>Nil</td>
</tr>
</tbody>
</table>

As can be seen from Table 1 most of the businesses that had succession failure did not develop plans or have a formal planning process for a majority of the key organizational functions. The cumulative lack of planning in these key areas – both before and after succession- definitely left the businesses in a weak state. From the study it was observed that a major reason for the lack of planning was -as one interviewee stated- the belief that business success is as a result of luck, God’s grace, and simple hard work. Most of the interviewees in the businesses that failed believed they could run their businesses by gut feeling and that it was not necessary to have formal and comprehensive planning processes.

All the businesses –both those that had successful and failed successions- did not develop succession plans. One of the possible reasons for the total absence of succession plans in all the businesses is cultural. In Malawian traditional beliefs it is a taboo to think, discuss, or prospect about one’s death (which is what, to an extent, succession planning delves in) whilst one is still alive. Secondly, it was observed (particularly in the businesses that failed) that the original owners could not envision or appreciate what their businesses could be or could achieve in the foreseeable future. As such the owners did not bother to plan about effective continuity in leadership in their businesses.

It can be said that the businesses that had successful successions succeeded inspite of having no succession plans (which is contrary to the literature) but the failed businesses had the heavy burden of having no succession plans in addition to also not planning for other key operational functions. The cumulative lack of planning in all these areas conspired to bring the businesses down.

6.2 Financial Illiteracy and Indiscipline

The study observed that the businesses that failed had a common attribute of lack of financial prudence. One of the major challenges the failed businesses had was the inability to differentiate between cash flow and profit leading to spending on personal expenses that eat into business operating income. Interviews with employees, former employees and others indicated that family members unduly showed off their wealth and power (particularly so during the period around the succession) on luxuries and marrying several wives or having extramarital affairs.

In addition, the research found, contrary to the literature, that access to finance per se was not a challenge for the studied businesses. However the nature of source of financing strongly differentiates the successful businesses from the failed ones. As will be noted in Table 2 below the businesses that failed mostly obtained their financing from agencies that attract higher interest rates such as loan sharks, non-governmental organizations, and micro-finance institutions.
Table 2: Percentage of Businesses Obtaining Financing from Various Sources during the Previous Ten Years

<table>
<thead>
<tr>
<th>Sources of Finance</th>
<th>Failed Businesses</th>
<th>Successful Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-governmental organs</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>Micro-finance institutions</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>Retained profits</td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td>Loans sharks</td>
<td>60%</td>
<td>20%</td>
</tr>
<tr>
<td>Bank loans</td>
<td>20%</td>
<td>80%</td>
</tr>
</tbody>
</table>

As noted in Table 1 above most of the businesses that failed did not also prepare financial statements such as profit and loss accounts, cash flow statements, or balance sheets. In the few situations where financial statements were developed it was not to use them as control and decision making tools but rather as one-off tools for obtaining financing or satisfying the requirements of bodies such as revenue authorities.

All in all, it was noted that the businesses that failed had a history of financial imprudence which was exacerbated on the run up to and after the succession (true to word, succession in some of the businesses occurred because the founder died or was incapacitated due illnesses linked to lifestyle behavior –e.g. having many wives or/and mistresses- that necessitated luxurious spending and, additionally, some of the successors in the family businesses not only displayed- once taking over the businesses- love of luxuries but also had limited financial knowledge). The financing options also chosen by the failed businesses were not efficient from a cost perspective.

6.3 Lack of Full Control of Business Operations

Findings from the study show that the businesses that failed had a tendency of lack of personal grip on critical business processes such as cash management, asset management, and marketing by the owners. In these businesses some of these tasks were carelessly entrusted in the hands of third parties such as employees who might not have full dedication to the tasks but at times also showed a spirit of dishonesty. A number of the failed family businesses were swindled large amounts of money at the time of succession because the founder (who in these situations had died) had entrusted some operational issues into the hands of third parties.

In the successful businesses on the other hand the owners assumed total control of critical operational issues such as cash handling, offering of discounts, banking and other processes prone to theft.

6.4 Family Cohesion and Cultural Values

In the family businesses that failed over 95 percent of respondents cited poor relationships among family and business members as a key factor for the failure. Sibling rivalry and the lack of cohesion and unity in the extended family (bearing in mind the size and importance of the extended family in the Malawian context) put immense stress and challenges on the businesses- and this only intensified around the succession period.

The tendency of some of the business founders to marry several wives -on top of having other children out of wedlock- increased the chances of family conflict especially at succession time. When the founder died or became incapacitated there was fighting for a share of the wealth and as a consequence some of the businesses liquidated through asset stripping. For the businesses that survived intact there was often resentment and lack of support towards the chosen heir from the other family members.

It was also learnt from the study that in the businesses that failed a contributing problem was the lack of bonding between the founding father and his children and spouse. As a consequence in these businesses the children and spouse were rarely involved in the business leaving a knowledge gap in business operations among the heirs and also negatively affecting the children’s desire or motivation to learn the business and develop the ambition to run it one day. In the businesses that succeeded on the other hand there were family values that encouraged the children to learn as much as possible of the business and the founders involved their children in the business starting at a tender age.

Another challenge to succession success is the practice of property grabbing when the owner of the business dies. Property grabbing is common in Malawi and it is generally inflicted by relatives of the deceased on the surviving spouse (usually a woman) and children. Property grabbing is culturally common but it is also prevalent because most Malawians do not write wills- findings from the study indicate that this is because of ignorance and the inability to face death. Without presence of a will a legal defense to protect the assets of the family business is not available.

6.5 Lack of Business Networking

From the study a key difference was observed between the businesses that had successful successions and those that had failed ones in the area of networking. The successful businesses fostered and nurtured a network of partners that included suppliers, customers, service providers, as well as direct competitors. These networks helped during the harsh and volatile time of succession through continued provision of supplies, softening debt repayment conditions.
etc. The businesses that failed did not have this network to act as a cushion and support during the difficult time of succession. In the few businesses that failed that had established a network the networks were managed and known only by the founder and not disclosed to employees and other family members (the founders generally feared that employees and other family members might take business away if they knew and dealt with suppliers, customers etc.). As an indicator of the depth of personal relationship and understanding nurtured with the business founder, in some of these businesses certain customers and suppliers refused to deal with the new management after the founder had departed.

Further analysis on why some of the businesses did not develop networks came up with the reasons as being, as one interviewee stated, the ‘I-can-do-it-alone spirit’ and the feeling among some of the founders and businesses that network partners could steal or undermine their business secrets and unique knowledge.

6.6 Limited Education

As shown in Table 3 below analysis of collected data shows that a higher percentage of family members in the businesses that succeeded in succession had tertiary (or post secondary) education than those in the businesses that failed. One would assume that the presence of more people with a tertiary level education facilitated effective business planning as described above and provided a base of people with broad experience and knowledge to advise and support the businesses. In addition, with more educated people in a family network this potentially implies that most of the members of the extended family have their own independent economic base and thus would most likely not resort to grabbing property once a relative dies but would possibly rather based on their education, knowledge and experience support and help the family heir of a business.

Table 3: Education Levels of Extended Family Members Directly or Indirectly Involved in some of the Business in the Study

<table>
<thead>
<tr>
<th>Education Background of Extended Family Member</th>
<th>Family Business</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
</tr>
<tr>
<td>No education</td>
<td>3</td>
</tr>
<tr>
<td>Primary school</td>
<td>10</td>
</tr>
<tr>
<td>Secondary school</td>
<td>8</td>
</tr>
<tr>
<td>Tertiary</td>
<td>0</td>
</tr>
<tr>
<td>Total Number of Members</td>
<td>13</td>
</tr>
<tr>
<td>Percentage of Members With Tertiary Qualification</td>
<td>0</td>
</tr>
</tbody>
</table>

Note: Businesses C, E, F, H, and I had successful successions whilst businesses A, B, D, G, and J had failed successions.

7.0 Recommendations

The study findings show that the factors influencing the survival of Malawian family businesses after the departure of the founder are multifaceted. To enhance the possibility of intergenerational success and survival of Malawian family businesses the paper makes the following recommendations:

- Business owners/founders and, just as important (for ensuring business survival after succession), their family members should be given training in effective planning techniques for the varied key functions of a business. These functions would include cash flow management, balance sheet preparation, strategic planning etc. Another key area businesses would need to be provided training in is succession planning. The training could be provided by non-governmental organizations, business associations, training institutions, financial institutions (which could make the development of e.g. successions plans a requirement for accessing loans). Comprehensive and regular training on development of plans for key business functions would enable the businesses and their owners to take a more strategic and long-term view of their businesses and to thus also adequately and effectively plan for succession and business continuity.

- A concerted national campaign and efforts involving different groups (the government, business associations, the media etc.) should be initiated and implemented to encourage financial prudence among family owned businesses and help reduce unnecessary and business suffocating lavish expenditure by business owners and their families.
Business associations (e.g. the National Association of Business Women, the National Association of Farmers in Malawi, the Indigenous Business Association of Malawi) should actively encourage and facilitate practical business networking among their members and other businesses. This is an area in which the business associations currently only pay lip service but have great potential to make positive practical contribution.

The education system in the country should change to incorporate issues of family business management in the curriculum starting from primary school to university. Some of the topics that should be dealt with at different stages of the education system are financial planning and control, general business management, conflict resolution, and succession planning.

Localized research into family business operations and functions should be encouraged. Some of the research areas to focus on include cultural and traditional factors that influence family business behaviour and performance; the role of institutions (government agencies, financial institutions, training institutions, the media etc.) in shaping family business behavior and performance; behavior and performance of family owned businesses of non-indigenous Malawians (it is widely noted that the family businesses of non-indigenous Malawians -e.g. those of Asian origin-more often survive and succeed from generation to generation).

8.0 Conclusion
Focusing on fourteen Malawian family owned businesses the study attempted to analyse and understand the factors that contribute to lack of success and survival of family owned Malawian businesses after the departure of the founder. The study uncovered some contributing factors (e.g. level of education of extended family members, lack of business networking) that are not concentrated on in the literature. From the research findings a number of interventions at the company, business community, and national levels are suggested in-order to help ensure successful intra-family business succession and the survival of Malawian family businesses. The survival and success of family businesses is vital to ensure employment generation, wealth creation, and economic diversification and thus contributing to poverty reduction and development at the community and national level in Malawi and other countries.

References