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Transitional Challenges Affecting Family-Owned Businesses: A global view

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Abstract: ***Research has shown that businesses owned by family members have unique challenges both during the lifetime of the founders and at the time the founder has to pass on or when there is need for generational or transformational transition. But these findings have not been collated in such a way as to theorize the variables involved. This paper therefore seeks to analyze the independent variables that have great impact on the success or failure of transition in family owned businesses and thereby its survival. The paper emphasizes that survival of a family owned business is a strategic issue and cannot be left to fate if the firm is to survive the transitional challenges that befall most if not all family businesses. The researcher identified strategic planning, organization structure, succession planning, and resource capability as the independent variables that determine successful transition of these firms. A desk survey was conducted with the world wide population of family businesses. Purposive Sample of family owned businesses was taken; Secondary Data was extracted from books, journals, newspapers, and internet resources; Content Analysis and Descriptive Diagrams were used to analyze the findings. The researcher has presented his findings which will be useful to owners of family businesses and the governmental planners as well. Further research has also been recommended.***

Keywords: Family Owned Business, Transition; Strategic Plan, Organization Structure, Succession Plan, Resource and Capability, Transitional Strategy.

1. Introduction

A family-owned business is one that belongs to members of a family. According to Wikipedia (2013), “a family business is a business in which one or more members of one or more families have a significant ownership interest and significant commitments toward the business’ overall well-being.” Two or more members within the management team are drawn from the owning family. But there can also be owners who are not family members although with less influence.

Participation of family members bring in a sense of loyalty and dedication to the firm, and business secrets are often kept within the family. But sometimes, interests of a family member may be at cross purposes with those of the firm. The dynamics of the family business thus requires very delicate balancing. It is this balancing act that can be one of the key abilities of the founder so that in the event of the sudden absence of the founder, then the family business collapses.

Successful transition planning, like business planning in general, is a process, not an event. The probability of success will be enhanced if the participants follow time tested steps for making sound decisions. First, take stock of the business to determine current strengths, weaknesses, financial position, etc. Next, spend considerable time with all stakeholders developing a shared vision, objectives, and goals for the business, and family members involved. Develop a workable plan to move the business forward, and implement the plan. Finally, it is important to constantly monitor progress, and if necessary modify or improve on the plan to keep the business on track to achieving the vision.

Succession within family-owned firms (retaining of ownership and/or running of a company by family members), and within those which are not family-owned. While the issue of family or non-family succession within a particular company is not necessarily an indicator of company size (for instance, companies with an early history of family succession such as Ford and Disney have become multinationals), it is nevertheless within the area of smaller, family-run businesses where the bulk of Business Succession Planning research has been done (SBS, 2004). Indeed, the issue of family- and non-family succession has become a widespread area of debate.

If the principal owner has a son, he is the first successor to be considered. If the son is too young, not interested in the business, or is considered to lack ability, succession is postponed. If, however, the owner departs, the son will become the successor regardless of any shortfalls. Only if the owner has no heir will other persons from inside or outside the firm be considered for succession, but for this, small family-owned firms generally experience greater difficulty in attracting successors from outside the organisation. While it can be argued that such an approach may not be the most efficient, nor even in the best interests of a company, the reasons for its coming about are clear enough.

1.1 Statement of the Problem

Family business is a business in which the main decisions and operational plans for the transfer and replacement of leadership are under the influence of family members. The ownership or management members in that organization are responsible for the main roles. Family business is also the type of business in which the property is completely available to family members. They hold a particularly significant position in mature world economies and are a sign of a healthy market economy. Family businesses are undoubtedly a special kind of companies which greatly differs from non-family businesses and are marked by specific aspects and needs. Family businesses face the specific problem of succession and generation exchange. According to Carlock and Ward (2001), all businesses, family owned or otherwise, find it difficult to continue for a long term.

According to Hnatek (2012) a family business is made up of two linked parts. These two parts must be in complete harmony in order to ensure the functioning of the family business. However, a typical problem of family companies is paternalism, where the family company is paternalistic; the family company founder concentrates power, permanently monitors other participating family members and resists passing leading positions in the organization to relatives (Hnatek, 2012). Leach (2011) also noted that typically it is the founder who articulates the mission and goals of the business. However, trust, can be taken too far in family businesses if it becomes a substitute for professional management ,that is why there are overlapping interest between family and business interest. This is a clear indication that the formation of family organization structure in businesses will be a challenge based on the kind of business, leadership and the relationship that may develop in the family.

In light of the fact that family owned businesses are natural part of each healthy economy as the case may be in Kenya, their inability to manage transition from one form to the other or one generation to another, may lead to termination of the firms or consequent weakening of the economic situation. This has been found to cause a negative impact on employment, a decrease in the gross domestic product (GDP) and also bring about changes to the social climate of the market (Hnatek, 2012).

According to a 2006 Canadian Federation of Independent Business survey, slightly more than one third of independent business owners plan to exit their business within the next 5 years and within the next 10 years two-thirds of owners plan to exit their business. The survey also found that small and medium sized enterprises are not adequately prepared for their business succession: only 10% of owners have a formal, written succession plan; 38% have an informal, unwritten plan; and the remaining 52% do not have any succession plan at all. The results are backed by a 2004 CIBC survey which suggests that succession planning is increasingly becoming a critical issue. By 2010, CIBC estimates that $1.2 trillion in business assets are poised to change hands.

Research indicates many succession-planning initiatives fall short of their intent (Corporate Leadership Council, 1998). "Bench strength," as it is commonly called, remains a stubborn problem in many if not most companies. Studies indicate that companies that report the greatest gains from succession planning feature high ownership by the CEO and high degrees of engagement among the larger leadership team. Companies that are well known for their succession planning and executive talent development practices include: GE, Honeywell, IBM, Marriott, Microsoft, Pepsi and Procter & Gamble.

Schall (1997) echoed their lament about the lack of literature, particularly in the public sector. She noted that serious study of succession planning in the public sector began in 1992 with a National Academy of Public Administration study in response to an anticipated turnover crisis in the SES. Since then, she said, most literature had focused on the transition of the chief executive officer. Finally, she noted an overall lack of focus on successful transition at the agency level, and suggested this was an area for future research. Kesner and Sebora found only three studies of transition in the nonprofit sector, and all of these involved universities. Santora and Sarros (1995) also found little conclusive data about transition in the nonprofit sector, and said that much research was needed in that area.

Succession planning is also a major problem within Small, Micro and Medium Enterprises (SMMEs). The literature shows that although most of these entities are run by their founders or by a small management team, very few such operators have in place proper succession planning. The lack of proper succession planning can have the direct effect of causing the collapse of these businesses especially when key players leave the business upon retirement or in pursuit of other options. The exit or exodus of key stakeholders can make a business vulnerable and diminish its worth as investors will not invest in a business that is not sustainable.

The purpose of this study therefore, is to analyze transitional challenges that affect family-owned businesses and what can be done to help family-owned business owners realize their goals of becoming compatible with the dynamic business world of today.

1.2 Objectives of the study

The general objective of the study is to identify the challenges affecting successful or smooth transition of family-owned businesses from one generation or form to the next.

The specific objectives are:

a) To show how lack of strategic planning of a family-owned business impacts successful transition of the firm;
b) To examine the effect of formal organization structure on the transitional challenges facing family-owned businesses;
c) To explore the importance of succession planning in a family-owned business and show how its lack leads to transitional challenges for the firm;
d) To analyze the impact of resource capability challenge to family-owned business' successful transition.

2. Literature Review

This section mainly focuses on the transitional theories advanced by different researchers. Empirical reviews from journals have been looked at, especially the ones touching on transitional challenges facing family-owned businesses.

2.1 Strategic Planning

Current theories also appear to assume that the operating environment is predominantly competitive and, implicitly, that a profit motive will be the driving force behind the planning requirement. Strategic planning can help private business organizations anticipate and respond effectively to their dramatically changing environments. **Bryson (1995).** Strategic planning is 'examining the future, deciding what needs to be done and developing a plan of action'. **Henri Fayol (1841-1925).** The work of **Fayol** still endures today and include planning amongst what he said were the prime responsibilities of management that involve strategic planning, organizing ; command ; co-ordination and control .

Strategic planning helps determine the direction and scope of an organization including business in transition over the long term, matching its resources to its changing environment and, in particular, its markets, customers and clients, so as to meet stakeholder expectations.“. **Johnson and Scholes, (1993).** Strategic planning is the process by which a firm's managers evaluate the future prospects of the firm and decide on appropriate strategies to achieve long-term objectives**.**

The basic means by which the company competes – its choice of business or businesses in which to operate and the ways in which it differentiates itself from its competitors – is its strategy. **Kristopher Blanchard (2007**). People from all walks of life, and communities as well as family owned businesses , use strategic planning to prepare for the future, solve problems, clarify needs and objectives, set priorities, and achieve goals.

According to **Henry Mintzberg(2002**), Strategic planning approach involves 5Ps and each P stands for a different approach to strategy: He gave the meaning of the Ps as ; Plan, Ploy, Pattern, Position and Perspective. As a Plan, strategy needs to be developed in advance and with purpose. As a Ploy, strategy is a means of outsmarting the competition. With strategy as a Pattern, we learn to appreciate that what was successful in the past can lead to success in the future. With Position, strategy is about how the organization relates to its competitive environment, and what it can do to make its products unique in the marketplace. Perspective emphasizes the substantial influence that organizational culture and collective thinking can have on strategic decision making within a company. Understanding and using each element helps you develop a robust, practical and achievable family owned business strategy.

According to Igor Ansoff, who is an acknowledged contributor to the development of thinking and practice on business strategy, he is regarded by many as one of the pioneers of strategic planning. He was a strong proponent of the 'Planning' school of thinkers and in his book, 'Corporate Strategy' published in 1965, he focused largely on the external, rather than internal, concerns of organisations, including the matching of products to different types of markets. He introduced his well known Matrix (Ansoff's Matrix for the analysis of factors of organizations, another strategic planning tool that is still widely used today.

According to **Jurgen C Schmidt, Katie Enock, Martyn Laycock** (2009), planning is, today, an acknowledged essential discipline, a vital, systematic and ongoing process that enables - as far as is possible - organizations and family owned businesses to plan the use and application of their resources, skills, knowledge and competences in order to achieve their organizational missions, goals and objectives in environments of ongoing, sometimes turbulent, change. It is especially in times of high levels of change that strategic planning places an organization in a more agile state, a stated of 'preparedness', more attuned to market and other external conditions and therefore the better prepared to flex or even substantially change their strategic thrusts and operational plans at local as well as at higher corporate levels when fundamental, sometimes structural economic, political and social change occurs.

Michael Porter (**1980**) the other main modern-day strategist, adopted a particular focus on organizational and governmental competence and competitiveness used tools and techniques, that include his 'Five Forces' and 'Value Chain' models that are useful in strategic planning

2.2 Organization Structure

This section has reviewed secondary, empirical and other literature within the domain of organizational structures and theories that describe organizational development. The literature available mostly covers the general explanations of organization structure based on theories of organizations. It has been interesting to find that the development of these structures within human social aspects of relating with each other in different environment. In this paper the main relationships being in family and business.

According to Smith (2011), as the organization grows, change in leadership needs of the organization require different skills to navigate through various phases of growth. Family organization structure tends to be simple, less decentralization and line communication that would serve organization purpose, which makes them more vulnerable than large organizations and with a rigid infrastructure it is difficult for them to transition into larger organization structures (Smith, 2011). According to Lumpkin *et al*, (2011), family based organizations are in a unique position to provide a climate of trust as a key resource of competitive advantage in business.

According to Lunnenburg (2012), organizations exist to achieve certain goals. These goals are broken down into tasks as the basis for jobs. Jobs are grouped into departments where departments are linked to form the organization structure. Family business organization not only are they motivated by financial wealth but social emotional wealth creation. When structuring various departments in the organization, these interests may affect family business. Emotional goals may provide a richer context in which to move towards financial goals because the concern for the family extends beyond the business to family itself. Although scholars have noted that paternal top management team (TMT) financially out-performed forms with non-family TMTs because they had a strong belief in their abilities a greater sense of belonging to the team, greater consensus on strategic direction of the firm and less detrimental conflicts (Lumpkin 2011). However, Kohl and White (2001) pointed out that there is need to develop a transition management team (TMT) that would address problems of transition defining organizational goals and challenges of all interested parties in the family business.

2.2.1 Organization Theories and Structures

Organization theory is a way of thinking about organizations. It is a way to see and analyze organizations accurately and deeply than one otherwise would (Daft, 2004). Organizational theories have focused on organizations in the perspectives of production, administration, bureaucracy, motivation and systems that literate through communication for the organization to achieve its objectives. Classical and neo-classical theories elaborated the various formations of organization structure that would fit an organization from hierarchical structure in administration; bureaucracy and Human Relations theory developed on motivation of social relationship do support the family perspective of having one organization structure. Organizations are social entities that are goal-directed, are designed as deliberately structured and coordinated activity systems and are linked to the external environment. Organizations are made of people and their relationships with one another. Family businesses are basically based on family relationship with family members. They deliberately structure and coordinate family resources to achieve their goals in business.

2.2.2 Organization Structures

The term organization structure refers to the formal configuration between individuals and groups regarding the allocation of tasks, responsibilities, and authority within the organization (Galbraith, 2009; Greenberg, 2011). Organization structure will determine the function the extent and scope of responsibilities in an organization. The structure and its elements will allow the culture to support entrepreneurial activities and creativity in the business (Sharper, Amir, Jasous and Shafee, 2012). According to Smith (2011), as the organization grows, change in leadership needs of the organization require different skills to navigate through various phases of growth. Family organization structure tend to be simple and less formal, which makes them more vulnerable than large organizations and with a rigid infrastructure it is difficult for them to transition into larger organization structures (Smith,2011).

Mintzberg (2009) suggests that organizations can be differentiated along three basic dimensions one of them being the coordinating mechanism, that is, the major method the organization uses to coordinate its activities and the type of decentralization used, that is, the extent to which the organization involves subordinates in the decision-making process. He suggests that the strategy an organization adopts and the extent to which it practices that strategy result in five structural configurations: simple structure, machine bureaucracy, professional bureaucracy, divisionalized form, and adhocracy (Lunenburg, 2012).

2.3 Succession Planning

Succession planning is a process for identifying and developing internal people with the potential to fill key business leadership positions in the company. Succession planning increases the availability of experienced and capable employees that are prepared to assume these roles as they become available. Taken narrowly, "replacement planning" for key roles is the heart of succession planning. Effective succession or talent-pool management concerns itself with building a series of feeder groups up and down the entire leadership pipeline or progression (Charan, Drotter, Noel, 2001). In contrast, replacement planning is focused narrowly on identifying specific back-up candidates for given senior management positions. For the most part position-driven replacement planning (often referred to as the "truck scenario") is a forecast, which research indicates does not have substantial impact or outcomes. It is the order in which or the conditions under which one person after another succeeds to a property, dignity, title, or throne.

Succession planning is a deliberate and systematic effort by an organization to ensure leadership continuity in key positions, retain and develop intellectual and knowledge capital for the future, and encourage individual advancement (Rothwell, 2001). Succession planning can also be defined as, a process which ensures the continued effective performance of an organization by establishing a process to develop and replace key staff over time (King, 2005). In this context succession planning encompasses not only top management but also a number of other factors. It can cover issues such as the procedures necessary for a successful transfer, legal and financial considerations, psychological factors, leadership development, and exit strategies (Ip & Jacobs, 2006).

Hollerbach (2011) states that if the predecessor does not have children or if they for various reasons are not interested in being involved in the family business, they will have to seek out a suitable successor from the wider family circle and also look around for possible external successors. According to Hollerbach (2011), the missing or unsuccessful succession can be explained by the lack of interest of the next generation, younger people and youths. These young people are not always interested in succession in the family business or in leading the same life as their parents. A solution to this problem cannot be made without the help and active influence of the legal administrative. The major task of the legal administrative is to provide the best possible surroundings for potential successors. The choice of a suitable successor for a family business from external sources would seem to be much easier as there is an almost unlimited choice of candidates and fairly demanding requirements can be placed on the potential successor in managing the company. An externally hired manager, however, does not have a direct ownership relationship with the family business and this might result in a decrease in motivation and performance when carrying out the function.

One key practical aspect seems to stand out. In order to ensure the long-term prosperity of succession to family members, nurturing and mentoring are essential for developing and maintaining the founder’s entrepreneurial values and drive (Ibrahim *et al*, 2004). The point is emphasized by Morris *et al*, (1996) who note that successful heirs are generally observed to be well-prepared in terms of educational background and experience, and to have spent a number of years working at all levels within the company concerned. Successful family transitions also enjoy positive family relationships with limited conflict, rivalry and hostility, and good levels of trust (Morris *et al*, 1996). Such factors cannot be dismissed lightly, as amply demonstrated in a study by Smith and Amoako-Adu (1999), where an analysis of stock prices of Canadian firms revealed that the mere appointment of a new and relatively inexperienced family member resulted in a loss to shareholders of 23.2 per cent over a mere 2 to 1 days surrounding the announcement.

2.4 Resources and Capabilities

A firm's resources have been defined as those tangible and intangible assets which are tied to the firm (Caves, 1980). Examples of resources include: brand names; in-house knowledge of technology; employment of skilled personnel; business or trade contacts; machinery; efficient procedures and processes; capital/finances, etc.

Family owned business can apply these resources at its disposal for its own competitive advantage and transitional survival. According to Barney *et al* (1991), this translates into valuable resources that are neither perfectly imitable nor substitutable without great effort. These resources, if utilized maximally, can lead to a firm's above average returns.

The Resource-Based View (RBV) is the theoretical basis for explaining the transition of a family owned business as a function of the firm's resources. The theory developed from the increased interest in the internal environment of the firm as the basis for strategy as opposed to previous focus on the external environment spearheaded by authors such as Michael Porter's Industry Analysis. The RBV therefore reinforces the role of the firm's resources as the foundation for firm strategy and eventual transitional success.

The origin of RBV has been mainly associated with Birger Wernerfelt in his article "A Resource – Based View of the Firm" of 1984. A resource-based view of a firm explains its ability to deliver sustainable competitive advantage when resources are managed such that their outcomes cannot be imitated by competitors, which ultimately creates competitive barrier (Mahoney and Pandian, 1992). Such competitive advantage will determine how well the family business will go through the transition period.

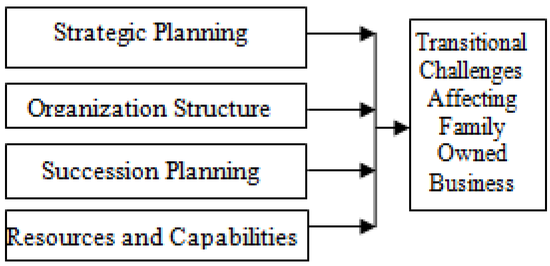
Amit and Schoemaker (1993) suggest that "resources" can be divided into *resources* and *capabilities*. To them, resources are tradable and non-specific to the firm, while capabilities are firm-specific and are used to engage the resources within the firm such as implicit processes to transfer knowledge within the firm from one generation to the next. Supporters of RBV have generally adopted this distinction. Makadok (2001), for example, emphasizes this distinction by defining capabilities as a "special type of resource, specifically an organizationally embedded non-transferable firm-specific resource whose purpose is to improve the productivity of the other resources possessed by the firm." (pg. 389). In other words, resources are stocks of available factors that are owned or controlled by the firm, and capabilities are the firm's capacity to deploy the resources.

RBV theorists agree that a firm may reach a sustainable competitive advantage through unique resources which it holds, and these resources cannot be easily bought, transferred, or copied, and simultaneously, they add value to a firm while being rare. They also maintain that not all resources of a firm may contribute to a firm's sustainable competitive advantage and thereby successful generational or transformational transition (Barney *et al,* 2001). The varying performance between firms is as a result of heterogeneity of assets. RBV focuses on the factors that cause these differences to prevail (Grant, 1991), and from those factors, a firm can choose to follow the strategic steps that enable it to transit to the next phase smoothly.

Grant (1991) recommends the following key steps of the resource-based approach to a firm's strategic survival in preparation for its generational or transformational transition period: Identify and Classify the firm's resources (i.e. appraise strengths and weaknesses relative to generational continuity, and identify opportunities for better utilization of resources to ensure transitional challenges are eradicated); Identify the firm's capabilities (i.e. what can the firm do more effectively than its rivals who succumbed to transitional challenges? Identify the resource inputs to each capability, and the complexity of each capability); Appraise the rent-generating potential of resources and capabilities in terms of (i.e. their potential for sustainable transition; and the appropriateness of their returns); Select a transitional strategy which best exploits the firm's resources and capabilities relative to external opportunities; Identify resource gaps which need to be filled (i.e. invest in replenishing, augmenting and upgrading the firm's resource base. This resource accumulation will sustain the transitional strategy).

The firm needs to follow the steps and use them to identify and align its resources and capabilities with a view to developing a transition strategy. The success or failure of the transition will wholly depend on how this entire process was conducted. The researchers therefore propose the above resource based view in dealing with transitional challenges of family owned businesses.

2.5 Conceptual Framework



Source: Author (2014)

3. Research Methodology

This study was a desk survey, intended to analyze the available literature on the variables that explain the challenges to transitional processes in family businesses. The appropriateness of this method to the study was the ability to review a wide variety of secondary literature that is relevant to the research topic.

Population of the study comprised all family-owned businesses worldwide. It was considered useful to take a world view in order to bring out the common challenges applicable to family businesses world over. Purposive sampling technique was used. This method enabled the researcher to select cases that had the desired information or the required characteristics that were useful in achieving the objectives of the study. The study made use of only secondary data which was extracted from various published sources as well as the internet. These included books, journals or periodicals, newspapers or magazines, among others. At least ten sources of literature were surveyed to link family businesses with challenges of transition in regard to each of the four independent variables as pertains to the family businesses. Content analysis method was used in view of the qualitative nature of much of the data collected. The method was quite appropriate in the analysis of the contents of documentary materials such as books, journals, newspapers, internet resources, and statistical reports. Descriptive diagrams were also used to summarize the models.

4. Discussions and Analysis

Organizations which do not face issues of family succession, encounter different challenges. Whereas family succession often provides a natural incentive for owners to plan for their succession (whether or not any action is actually taken), owners/CEOs of publicly-owned firms or firms without an obvious next of kin are obliged to find alternative motivation for implementing a succession plan. Fiegener *et al*, (1994) and Welsch (1993) have found that the key differences in BSP between family and non-family firms is that the former generally favour more personal, relationship-centred approaches to successor development, while the latter prefer formalized, task-oriented development approaches. Consequently, certain biases towards family members (such as those mentioned above) can be put aside, thus, in theory, making for more informed decisions. Examples of this in practice are typified by the realisation of the importance of succession planning in many large corporations. It has led to direct success in companies such as McDonald's (Flahardy, 2004) and WalMart (Johnson, 1998). However, according to some reports, the lack of it or seemingly ill-structured succession processes are manifest in multinational heavyweights such as Coca Cola and Disney (Sherman, 2003; The Economist, 2004; Business Week, 2005), and even in non-profit organizations (Santora *et al*, 1997; Santora and Sarros, 2001).

4.1Strategic Planning

According to Kristopher (2007), strategic planning is a process used by firm's manager to evaluate the future prospects of the firm and make decisions on the appropriate strategies to achieve long-term objectives. He also adds that this kind of planning is used to prepare for the future, solve problems, clarify needs and objectives as well as set priorities in order to achieve those objectives (Kristopher, 2007; Tim, 2003). It is the strategic intent of the family owner-manager of the firm that will determine the strategic direction of the firm in order to achieve the firm's objectives (Lumpkin *et al*, 2011; Tim, 2003). However due to limited resources and capabilities of the firm and the owner-manager, family firms find it difficult to deal with business environmental changes that require strategic decisions to be put in place in case of such situations. Research in resource based theories of strategic management have suggested that firms should look inward at their resources and ensure that they match their strategies against their skills, resources and abilities (Grant,1991; Tim, 2003) because these will be the basis of competitive advantage in the market.

4.2 Organization Structure

Scholars have explored the field of organization structure on the basis of their functions in business and concluded that organizations will also adapt to a structure that fits their needs and interest. They have recognized the fundamental role of the family structure that guides relationships in the society and also provide leadership that is necessary for socio-economic development (Lumpkin *et.al*, 2011; Smith, 2011). Major factors that have been associated with family structure are the relationships that develop overtime and the dimensions in which they will manifest themselves. This will entirely depend on the family leadership and transition from one generation to the other (Hnatek, 2012). Organizational change rationally occurs in the context of failure of some sort. A typical example is when there are cases, and then there is a plan to change. Change involves difference "in how the organizations, who its members and leaders are, what forms it takes or how it allocates its resources (Karl and Robert, 1999). According to Tim (2003), due to lack of scale and scope, small firms can quickly adapt their organizational structure to pursue new strategic opportunities, but their limited resources are likely to impose limits on how far they can stretch and leverage in a competitive environment. Flexibility is important in the structure in which such small firms in a family set up will seek to stretch and leverage its limited resources in order to achieve its objectives as set out by the owner-manager.

4.3 Succession Planning

Rothwell (2010) in his book understands succession planning as identifying critical management positions, starting at the levels of project manager and supervisor and extending up to the highest position in the organization. Succession planning also describes management positions as providing maximum flexibility in lateral management moves and ensuring that as individuals achieve greater seniority, their management skills will broaden and become more generalized in relation to the total organizational objectives rather than purely departmental objectives. He also mentions that succession planning should not stand alone. It should be paired with succession management, which assumes that a more dynamic business environment in the capacity building of talent should occur in actual time. Essentially each family business will sooner or later have to solve the problem of succession. The business will thus find itself in a situation where the founder or long-term manager who was the highest authority, a visionary, a strategist and a stable certainty for everyone often for decades– will have to leave their post. This will bring uncertainty to the company as well as impatient expectations. It is therefore important that the business already be clear as to who will naturally replace the current manager when they leave.

Succession planning is a key element of an effective strategy for managing talent and ensuring that an organization achieves its future goals. As organizations lament another impending "retirement crisis" and leadership shortage, succession planning is once again coming to the fore in public sector HR management. While the private sector has increasingly focused on creating succession planning programs that align with their changing business needs, the public sector has lagged behind. This is largely due to the complexity of implementing these programs in the public sector. Challenges include the nature of tenure and political leadership in the public sector, personnel system rules, lack of resources and lack of focus. Literature on successful programs is scant, but successful public sector models and approaches have been implemented at various levels. This literature and our own experience show that when these approaches are linked to an organization's strategy and integrated with other HR processes, public sector organizations can benefit. At the center of these programs is strong leadership support, focusing on developing a pool of future leaders and a strong focus on performance. Succession planning is becoming an imperative. With the right focus and expertise, the public sector can meet its talent challenges.

4.4 Resources and Capabilities

Some of the World's largest businesses began as family-owned businesses. For example, The Walmart of USA, Samsung Group of Korea, Tata Group of India, and Foxconn of Taiwan (Wikipedia, 2013). The success of such firms arose from their abilities to manage internal resources and capabilities for successful transition – both generational and transformational. But research has also established that over 70% of family owned businesses collapse within the first five years of their existence/formation (ibid).

Kenya's most notable family owned businesses include: The Jacaranda Group (of the late Njenga Karume); Alliance Group (of Kenneth Matiba); The Gerrison Kirima Business Empire; The Tusky's Chain of Supermarkets; The Nakumatt Group; The Chartered Securities Group (of the late Philip Ndegwa); The Spectre Group (of the Odinga Family); House of Manji, EABS Group; and others.

A firm needs to have a formal identification of its brand, technology, staff skills, trade contacts, equipment, efficient processes, and financial strengths among others. These then are classified according to whether they are resources or capabilities. Tata Group's success is attributed to not only being a large family of skilled people, but also its methodical use of RBV (Kachaner, 2012). Family businesses are not started with the rigorous formal structure in mind, so this step is rarely undertaken. The result is that the firm may not know that it has the necessary resources required for generational or transformational transition. It will thus struggle to survive and may eventually collapse. The family conflict exposed in the Kirima estate is a case in point. A firm that fails to do a SWOT analysis for better utilization of its resources therefore fails. The firm needs to identify its strong areas and allocate sufficient resources to those areas. This enables it to have competitive advantage over its competitors and thereby transit from one phase to another. A strong founder who has wide networks would be appropriate to the firm for the time being, but an orderly succession planning enables the firm to transition with ease. Resource mobilization abilities coupled with skills to rally all family members to the single objective, are therefore key to the family-owned business.

Appraising the rent-generating potential of resources and capabilities involves the assessing of the abilities of the resources such as technology, machine/equipment or skilled staff to produce more than just the rent/return. This focus releases firm's energy and times to lucrative business niche's only and thereby avoid trying its hand at every appealing business opportunity.

Selecting a transitional strategy would best exploit the firm's resources and capabilities relative to the external opportunities. Younger family members should be trained in the family line of business for eventual generational takeover. Invitation to external investors may also be made. It is important to know when the business has grown too large for the family to manage on its own and thus invite external management and entrepreneurial skills for the sake of continuity and profitability. The Hillcrest International Schools in Kenya belonging to Matiba Family were sold off by Barclays Bank due to such circumstances – not knowing when to let go of family management of a business (*Business Daily*, 2011). The final stage is to identify the gaps in the family business that need to be filled. These may include the lack of strategic plan, operational plan, succession plan, etc. These gaps may be filled by the help of a consultant. Gaps in training, technology, human resource, finances, processes, etc may be incorporated into the various plans above.

Transition theory is focused on the changes that do occur in an organization affecting the system of operations and relationships among participants. According to Loorbach, Bakerl, Whiteman and Rotmans (2005) transition in management is focused upon the management of specific patterns of structural system change from one equilibrium (or regime) to another as it is applied to social systems. Therefore a family owned business will need to consider the patterns of structural system changes that will affect the running of business within a given social set up like a nation which operate as the main system in business. They also noted that transition management is a prescriptive governance approach including a framework for experimentation of transition management instruments and ideas that support positive and sustainable development in organizations. This requires a system innovations, organization exceeding, qualitative innovations; which are realized by variety of participants within the system or subsystem (family) and which fundamentally change both the structure of the system and the relations among participants(Loorbach & Rotmans, 2009). In order to solve persistent societal problems, structural transformation or transition is necessary which is characterized by a long term process of change during which a society or a subsystem (family) of the society fundamentally change (Loorbach & Rotmans, 2009).

5. Conclusion and Recommendations

Transition and Succession rank among the most important tasks which family firms have to come to terms with. Generational and transformational transitions are long term processes which have to be planned and thought out ahead of time. In light of the fact that family firms are a natural part of each healthy economy, the inability to manage these changes will lead to the termination of family firms and to a consequent weakening of the economic situation. This will of course have a negative impact on employment, a decrease in the gross domestic product and also bring about changes to the social climate of the market. This will also lead to inalterable losses of knowledge which are linked with concrete persons. The transfer of this knowledge is only possible through direct interaction and business experience.

The main problem will be when the family establishes a business and as the business and the family grow to big social entities, responsibilities and business functions change making it difficult for a simple family structure to deal with those changes (Kohl and White, 2001; Leach, 2011). The relationships and mutual understanding that tend to determine the kind of structure that a family business will use to design a business structure may cause conflict of interest if family interests will be more valued than the professional management skills in business. This may lead to poor performance of the enterprise and eventual collapse. Karl and Robert (1999) said that change is a phenomenon of time. It is the way people talk about the event in which something appears to become or turn into something else, while the 'something else' is seen as a result or outcome. Therefore family businesses will always experience a challenge in developing a structure that is perceived to take into consideration the business interest and that of the family. Family owned businesses will tend to have an autocracy structure which has the support staff as key part of their operations using their emotional and mutual adjustment as a means of coordination, and maintain selective patterns of decentralization (Lunenberg, 2012). A family business must therefore also work at developing a sense of work satisfaction among their employees who should be aware that the owners of the business appreciate their work and that they are not less valuable only because they are not members of the family. Each business relies on employees who should be the first customers of the business so as to be proud of the company in which they work. Members of the owner family of the business should achieve a sense of security, certainty of a future vision and stability among their employees which will not be influenced by the generational transition from the actual entrepreneur to the successor.

Further research and analysis is required to examine to what extent family values, diffuse ownership and resources facilitate or impede these processes. Poor performance of some businesses following the exit of founders and their fact knowledge, therefore examining the organization structure will enable qualitative research to generate clear research objectives and questions on how organizational structure in family owned businesses poses a challenge during transition.

Family business managers will find it necessary to train their own successors and reorganize their structures to manage their transition challenges in business. It involves several steps and begins when the founder or family manager encourages children to become part of the business (Hnatek, 2012).This analysis addresses one of the challenges noted by Daft (2004) of supporting diversity especially balancing work and family interests.

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