
Decision making in the succession process of medium family businesses

C.G. Martínez-Tirado*, J.C. Niebla-Zatarain, M.L. López-López, R. Martínez-Huerta, J.J. Chávez-Martínez

Administrative Sciences Dept, Autonomous University of the West, Lola Beltrán s/n, Culiacán Rosales, Sinaloa, Mexico

Corresponding Author Email: carolmartinezt@outlook.com

Keywords:

decision making, succession, family business

ABSTRACT

Around 80% of the existing companies in the world are family businesses since they are run by members of a single family. Regardless of size, micro, small and medium companies have been grouped and studied as if they were the same. However, the larger the size, the more complex the companies become, so that decision-making is not handled in the same way.

This research aims to analyze the performance of the decision-making variable in medium-sized family businesses during the succession process, expose the aspects that put the survival of the same at risk and present the alternatives that allow improving the management of this type of business. This investigation was carried out through a Case Study.

1. INTRODUCTION

One of the main objectives of Family Businesses is to maintain the direction of the business through the generational changeover. The succession process is mainly experienced by two figures: the owner or leader of the company and the successor(s) belonging to the next generation. In several studies it has been revealed that succession is one of the main causes of mortality for these companies [15, 20].

Avloniti and his collaborators have found that most of the research on succession in the family business, has focused on improving the training of family members to deliver the business to the next generation, while very few studies approach succession as a factor of their survival. This research focused on analyzing the behavior of the decision-making process within a family business, which could have some lack of control because of the influence of the succession process, which could put the continuity of the business at risk.

Currently, a problem faced by MSME is the uncertainty of their continuity caused by their constant closure and opening. The death rate of companies in the first years of their existence is similar throughout the world; an example of this is that in Mexico 10% of businesses reach 10 years in business [19]. The damage generated by the premature death of companies affects the welfare of workers, communities and the economy of the regions [7].

The survival figures of family businesses in general, after the succession process are: 30% of companies go from a first to a second generation; from a second to a third generation, 10% survive; and finally, in the fourth generation only 4% of them survive [12, 16].

In this study, the situation of a medium-sized family business that was in the process of succession is analyzed through the collection of data through interviews with various key people of the company. All the data collected was analyzed through the triangulation of the theory collected and the information processed. This allowed obtaining results that can offer outgoing and future leaders a proposal to improve the

management system that helps minimize the risks of survival.

2. BACKGROUND

2.1 Family businesses

The Micro, Small and Medium enterprises (MSME) are the mainstay of the economy of most countries because they are the main source of employment and because of their contribution to GDP [1]. Between 65% and 80% of the total global companies are being controlled by families, which are known as family businesses. [5] defined family businesses as businesses that are managed by members of the same clan, who seek the main benefit for the family and that its direction is maintained through their generations.

One of the biggest challenges for family businesses is “to achieve an optimal balance between property, family and management, which can favor positive interaction both in the family and in the company, through communication and management of the company's system” [16]. For companies that are micro and small, the exercise of governance is simple, since the proximity between the manager and his family with the personnel and business processes is very close; the supervisory exercise can be controlled. Within these entities, it is common to find that they do not have or that they have very few people who have any academic specialization directed to the company's rotation, so the establishment of strategies is generated on an intuitive basis and experience of the director of the same company. Commonly, they do not have an organized management system, since they do not pay much attention to the configuration that their government has because their organization is relatively simple.

When companies evolve and become medium-sized, they begin to experience internal problems due to the inadequacy of the management generated by growth, which should lead them to think about the formalization of management. However, this step is difficult for family businesses since they

seek to maintain the same form of administration already instituted, which may even represent a family tradition.

One of the steps to achieve the formalization of the management, [16] recommends the implementation of the different Instruments of Order, which are different groups of people and documents that have been convened and created so that the directors, family and staff of family companies achieve consensus in situations such as the search for strategies, resolution of conflicts, find proposals for improvement, create future plans, and perform restructuring, among other important issues of the company. Among the instruments of order used in family businesses are found: Family council, Constitution or family letter, Family protocol, Administrative Council.

It is important to emphasize that in these instruments of order, not only rules and procedures are established, but they are also: bearers of family values, they remind them of

all the foundations of the business project and represent the guarantees of family cohesion.

Between 60% and 80% of the total global companies are being controlled by families [9, 1]. The way in which entrepreneurs have run and organized their businesses is similar to that of their homes: the founding entrepreneur exercises the position of father in the company and in his family, which has the obligation to take care of economic interests. They seek to maintain control of the companies alone. They keep very closed, they do not have the habit of seeking external support or advice to fix family situations within the business. For most managers, these supports represent a high and complicated cost. In the case of Mexico, there are very few Mexican companies that have instruments of order that help them to better exercise their governance.

2.2 Successor process

Succession has become a transcendental dimension in family businesses, since the main desire of the members of the family is to perpetuate themselves in the ownership and management of the company [12]. The concept of succession in general, has been defined as the passing of the leadership baton of the founder-owner to a successor. It is a slow, evolutionary process and of adjustments between the roles of the founder and the successors [8].

Companies must establish succession plans that allow the transition to be made in the most optimal way. In family-owned companies, there are hundreds of reasons why the businesses fail, being among the main causes, the lack of planning of the succession [16].

It has been detected that part of the success of the succession can come from the planning of the process, within which its main point is to identify the criteria that the successor must meet, as well as to define the way in which the changes are carried out. The Family Business Institute has recommended that when planning the succession, they should consider:

Developing a plan that determines the time to make the change, the vision and values that they want to preserve

Prepare the next generation to take the leadership by developing the capabilities and competences of the successor

Creating a horizontal management model that delegating responsibilities in order to reduce the risks generated by the concentration of responsibilities

Define the role that the owner will play once the change is made.

How to develop these points is not an easy task, it requires

that decisions be made constantly, which is very risky when managers, successors and others are not prepared to do so or do not have the support tools to carry it out.

3. DECISION MAKING

Decision making is a process that is present in the performance of all the administrative functions of the companies; it is carried out in the nucleus of planning, organization and control activities, which is why it is considered a common activity that is fundamental for the organization.

In family businesses, during the process of succession, decision-making is affected consciously and unconsciously before the changes that are approaching; Such affectations can become negative, which can cause risk to the survival of the company.

It is common that in most of these family businesses, that the director participates directly in the various processes of the company and is the one who makes the decisions. The decision-making process is complex, involves a lot of responsibility and risks, so it is necessary that decision makers are aware and seek the most appropriate way to do it. In family businesses there is still no perfect mechanics for decision-making, intuition and experience are generally taken as a basis [12]. This way of making decisions is insufficient when the company is larger than the small size, because the complexity of it deserves decisions to be made through more formal mechanisms, this means using instruments of order and control tools as reports, formats, etc. which must be adequate to the needs of the company.

During the succession in family businesses, the decision-making process is extremely compromised. One of the main decisions made in the company is to choose the successor, this action depends largely on the permanence of the company. Work experience and the feeling of commitment to the company are two of the main requirements for a successor, however recent studies highlight the importance of having specialized academic knowledge regarding the activity carried out by the company.

Likewise, as the moment of the succession change approaches, within the family problems of rivalry, conspiracy, and weakening may arise that could directly affect the company, making decisions that resolve the situation in the family and in the company. it could become difficult for the board [2].

While the succession process is being experienced, it is necessary to analyze the current situation of the company to assess its administrative, financial, labor and fiscal position; It is important to decide what actions should be taken to resolve the irregular business situation (if required) and also, based on the results of the analysis, to assess when the precise moment to make the change of power would be. Without a doubt, the decisions made during the succession are fundamental for the stability, growth and permanence that the family and the directors wish to have for the business.

4. CASE STUDY

Tostada and Maz, S.A. of C.V. was founded at the end of the 80's by José Pérez Barraza; it is a company dedicated to the preparation and distribution of tortillas and fried corn in

Sinaloa. It started as a micro business and has now become a medium-sized company, with a workforce of 246 employees distributed in different branches installed in 3 states of the Mexican Republic.

Different family members of the founder have worked in the company; some have left the business and others continue. For Mr. Pérez, the company is an entity separate from his family, unlike other entrepreneurs who consider their businesses as an extension of their families [14]. The founder considers that the family members who work in the company are like all other workers, who if they perform well, continue.

More than 15 years ago, he began to prepare his two children within the company so that at some point they may take their place. Each child was thoroughly immersed in the production and operational areas, respectively. The idea of the founder is to leave the front of the business to both children in order not to cause conflicts between them. None of the children had academic studies focused on the business; they have increased their knowledge through experience in the company only.

When the company was small, Mr. Perez ran the business and made decisions on his own, following his intuition and experience. Due to the size of the company and how complex all the processes were becoming, he recognized that decision-making alone was not the most convenient, so he and the staff and their children investigated the most appropriate way to make decisions.

They began to meet, the director and his children, along with other elements of the company, to review pending problems in the company and hear more opinions and / or suggestions. This way worked, so he chose to implement an administrative council that will help find the best alternatives and help in the resolution of conflicts, mainly seeking consensus.

The administrative council is made up of the founder, the two successors, 4 accountants and an external advisor. The diversification of points of view has allowed to expand the levels of control over the different processes of the company, they have obtained better solutions in the treatment of problems, and have detected deficiencies in the information, among other issues. With all the good that has been achieved so far with the administrative

council, they have realized that a good part of making decisions cost them a lot of time and work; Many of the decisions are very difficult to take due to the fact that the members of the board do not know about the operative issues, such as, for example, the requirement of the machines. It has been revealed that its management system is limited.

5. RESULTS AND CONCLUSIONS

Among the main findings that were obtained in the research derived from the decision-making process is that:

The director who knows the importance of planning his succession does not have the knowledge of how to carry it out

Currently they do not have the full information that can provide them with knowledge of the current situation of the company

By not giving the successors the specialized knowledge oriented to the turn of the company, the decisions taken by the new director could put the company at risk

The majority of the members of the administrative board belong to the administrative area, which means that the

decisions that need to be made around the operational area are very slow or cannot be taken

The members of the administrative board mostly obtain their information to make decisions mainly of financial reports

These points lead us to conclude that the succession in the medium-sized family business goes beyond the action of passing the baton of the founder's leadership to the successor [3]. Through the investigation made to the company Tostada and Maz it was possible to verify that, for the planning, the leader in addition to preparing the successor, must prepare the company for the change. He must create control tools for both the administrative and operational areas, adapted to his business, which allow him to review the general situation of the company to detect the weak points, which could disprove the proceeding of the same. This will provide the director with an overview of the company and be able to make necessary adjustments and determine if they are in a position to make the change of direction.

Also, the preparation of the successor cannot be limited to acquiring experience within the business and having a sense of commitment to it, it is necessary that the successor has the academic or specialized knowledge about the activity of the company. In many cases, the successors do not have this last aspect so they should seek to have an internal or external advisor with the necessary knowledge, which can be supported for decision making.

Family businesses of medium size require a more formal and structured governance system. The formalization of the governance of family businesses through an administrative council reinforced with external advisors and with the control tools appropriate to the requirements of the company, will provide management control necessary to carry out the change of address, as such so as to minimize the risk of their continuity.

The survival of the medium sized family business depends a lot on the previous control that the leader can implement together with the successor before the succession of the address takes place.

REFERENCES

- [1] Arazi M, Baralla G. (2012). La situación de las pymes en america latina. Inter-América Development Bank (IADB).
- [2] Avloniti A, Iatridou A, Kaloupsis I, Vozikis G. (2014). Sibling rivalry: Implications for the family business succession process. *International Entrepreneurship and Management Journal* 10: 661-678. <http://doi.org/10.1007/s11365-013-0271-6>
- [3] Bianchi P, Di Tommaso M. (2001). Política industrial para la pequeña y mediana empresa en la economía global. *Comercio Exterior del Banco Nacional de Comercio Exterior* 51(12): 1089-1095.
- [4] Cano J. (2016). EFB-KPMG Barometro europeo de la empresa familiar 2016. Recuperado el Noviembre de 2016, de <http://www.iefamiliar.com/upload/documentos/VBarometroEF.pdf>
- [5] Chua J, Chrisman J, Sharma P. (1999). Defining the family business by behavior. *Entrepreneurship Theory and Practice* 23: 19-39.
- [6] Daft RL. (2007). *Teoría y Diseño Organizacional* (Sexta edición ed.). México: Thomson Editores.

- [7] De Geus A, Gorin J. (1998). La empresa viviente: hábitos para sobrevivir en un ambiente de negocios turbulento. Argentina: Granica SA.
- [8] Handler W. (1989). Methodological Issues and Considerations in Studying Family Businesses. *Family Business Review* 257-276. <http://doi.org/10.1111/j.1741-6248.1989.00257.x>
- [9] Hernández M, Mendoza J. (2013). Gestión del Cambio y el Desarrollo Organizacional. Hidalgo: Universidad Autónoma del Estado de Hidalgo. Obtenido de http://www.milenio.com/hidalgo/Empresas-familiares-cierran_0_153584921.html
- [10] INEGI. (2015). Instituto nacional de estadística y geografía. Obtenido de http://www.inegi.org.mx/est/contenidos/proyectos/cc/cc/2014/default_t.aspx
- [11] Instituto de la Empresa Familiar. (2016). IEFamiliar.com. Obtenido de <http://www.iefamiliar.com/>
- [12] Kets DV, Manfred FR. (1994). The dynamics of family-controlled firms: The good and the bad news. *Organizational Dynamics* 59-71. [http://doi.org/10.1016/0090-2616\(93\)90071-8](http://doi.org/10.1016/0090-2616(93)90071-8)
- [13] KPMG M. (2013). Empresas Familiares en México. Obtenido de http://www.kpmg.com/MX/es/PublishingImages/E-mails-externos/2013/CONFERENCIA_DE_PRENSA/EMPRASAS_FAMILIARES/Empresas%20familiares_130913.pdf
- [14] Miller D, Le Breton-Miller I, Lester R, Cannella A. (2007). Are family firms really superior performers. *Journal of Corporate Finance*, 829-858. <http://doi.org/10.1016/j.jcorpfin.2007.03.004>
- [15] Morris M, Williams R, Allen J, Avila R. (1997). Correlates of success in family business transitions. *Journal of Business Venturing* 12: 385-401. [http://doi.org/10.1016/S0883-9026\(97\)00010-4](http://doi.org/10.1016/S0883-9026(97)00010-4).
- [16] Poza E. (2011). Empresas Familiares. México: Cengage Learning Editores.
- [17] Ramírez LA. (2014). El laberinto de la globalización: empresarios en México. En M. Monsalve, Grupos económicos y mediana empresa familiar en América Latina (Primera ed.). Perú: Universidad del Pacífico.
- [18] Soriano C, SaberPlus S. (2008). Los cinco pecados capitales de las PyMes. El recuperado.
- [19] Yu A, Lumpkin G, Sorenson R, Brigham K. (2012). The landscape of family business outcomes: A summary and numerical taxonomy of dependent variables. *Family Business Review* 25(1): 33-57. <http://doi.org/10.1177/0894486511430329>