# THE SUCCESSION SCORECARD, A TOOL TO ASSIST FAMILY BUSINESS'S TRANS-GENERATIONAL CONTINUITY

**Ilse Matser**
Windesheim University of Applied Sciences, Utrecht University School of Economics
Centrum van het Familiebedrijf, Postbus 405, 3500 AK Utrecht, The Netherlands
ilse.matser@cfb.nl

**Jozef Lievens**
Instituut voor het Familiebedrijf, Hogeschool Universiteit Brussel, Belgium
jozef.lievens@eubelius.com

**Abstract**

A crucial moment in the life cycle of any firm is the succession phase. The risk of an unsuccessful succession can have a detrimental effect on the performance and continuity of a firm. Given the number of family firms the topic of succession of family firms deserves attention on a macro-economic level. This paper discusses the attempts the European Commission has taken from 1994 up until now to improve the preconditions for business transfer in the EU member states. In addition this paper introduces the succession scorecard as a promising tool to help overcome some of the challenges left. The content, approach and value-add of the scorecard are discussed and empirical findings stemming from the use of the scorecard are analyzed. A recommendation is made to introduce the succession scorecard in more EU Member states.

## 1. Introduction: succession : *the* challenge for every family business and a concern for the economy as a whole.

According to research in Belgium (Voordeckers and Van Gils, 2003) preserving the familial character is the most important objective of a family business. This is a good example of how important a successful business transfer is for a family firm. Nevertheless, it appears that this objective is not always easy to realise in practice. Despite the fact that family businesses are blessed with a longer life than non-family businesses (Miller and Le Breton-Miller, 2005), it appears that fewer than two-thirds of family businesses are still in family hands after the second generation. Only 13 % have retained their familial character after the third generation (Ward, 1987). And when a transfer within the family is not possible or desirable it's crucial to find a viable alternative. Succession is thus a major challenge for every family business.

Can business failure due to unsuccessful transfer have an impact on the growth and competitiveness of the European Union? To find out if the topic of business transfer should be a concern for the economy, it's necessary to know the extent of family firms in the economy. However one of the major issues in policy discussion as well as in family business research is the fact that there is no generally accepted definition of a family firm (Chrisham, Chua and Sharma, 2005). A non-disputed characteristic of a family firm is the overlap between business and family. This overlap creates 'familiness'. 'Familiness' is defined by Cabrera-Suarez , De Saa-Perez and Garcia-Almeida (2001) as the unique bundle of resources and capabilities that results from the family involvement in the business. This is an intangible asset and therefore difficult to measure. More 'solid' criteria are based upon the ownership structure and strategic control. For instance, in order to qualify as a family firm the family requires more than 50% of the ownership and a major family dominance in the management. As a consequence of this heterogeneity it is difficult to measure the economic importance of family firms in the European Union. The final report of a recent study of family businesses (Mandle, 2008) establishes the following rough indicators:

- about 70% - 80% of all European enterprises are family businesses;
- about 40% - 50% of all European jobs are held in family businesses;
- About 40% of private sector turnover stems from family businesses.

These indicators show the importance of family firms for the European economy. As a consequence the family firms play an important role in achieving Europe's ambitions towards becoming a competitive and innovative market. Research on the financial performance of family firms as compared to non-family firms show mixed results. Dyer (2006) argued that most research fails to clearly differentiate the family effect from other factors that influence firm performance. One of the reasons for this is that family firms themselves cover a broad variety of firms. For instance Miller, Le Breton-Miller and Scholnick (2008) compared small firms, who were owned and managed by their founder. Within this homogeneous sample they found a clear positive distinction of the family firms. Especially the focus on continuity makes family firms an important asset for the European economy. A major concern of policy makers is the ageing population of Europe and as a consequence the increasing need for business transfer. The European Commission stated in 2006 that one third of EU Entrepreneurs, mainly those running family firms, will withdraw within the next ten years. Estimations made show that for Europe as a whole as much as 690.000 small and medium-sized firms and 2.8 million jobs are involved every year. This implies a big risk for Europe's competitiveness because business transfers often prove to be unsuccesful. The European Commission is convinced that when business transfers fail it is often not because the business is not viable as such but it is because of problems in the transfer phase. So the European Commission strongly believes that support measures for business transfers need to be improved (EU, 2006). In the current, worldwide economic crisis family firms might prove to be the solid foundation for economic recovery. Family firms seem to be less sensitive to rigorous, short-term demands from external shareholders. However, anticipating on a period of slow economic growth and less financing capabilities the transfer of firms may prove to be even more challenging. It may call for more preparation yet. The objective of the paper is twofold. First of all, the succession scorecard is introduced as a useful instrument to guide stakeholders through the transfer process. Secondly the data from the scorecard database is used to evaluate the European Commission policy on business transfer. The paper proceeds as follows: section 2 elaborates on the issue why succession is so difficult for family firms. Section 3 discusses the attempt the European Commission has made so far to improve the preconditions in the Member States. Section 4 introduces the succession scorecard as a promising tool to overcome some of the challenges left. Section 5 describes the content of the scorecard, the 10 success factors of a successful succession. Section 6 discusses the information gathered with the succession scorecard. The paper ends with discussion and conclusions.

## 2. Why is a succession so difficult for family firms?

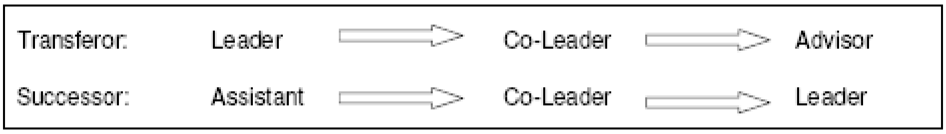
Succession is not a one-time event, but rather a process which goes on for five to ten years. This process includes “all the actions, events and developments that affect the transfer of managerial control from one family member to another” (De Massis, Chau & Chrisman, 2008, p. 184). Four (groups of) actors who play a role in the family business are involved in the succession process: the family, the family business itself, the owners of the family business and a number of individuals, including firstly the transferor (incumbent leader) and the (potential) successor. The family member who currently holds the top management position of the family firm and must give up that position during the succession is called the incumbent leader. The potential successors are all the family members who potentially can succeed the incumbent leader without judgment about their capabilities, training, resources or motivation (De Massis et al., 2008).

In essence, two things take place during the various phases of the succession process. First, the leadership of the family business is transferred, which will have as a consequence that the younger generation assumes the leadership function in the place of the transferor. Secondly, it is important that the ownership also be transferred: otherwise we cannot speak of a genuine succession. This does not detract from the fact that, in practice, the management and the ownership are generally *not* transferred simultaneously. Usually the transfer of the management comes first, and that of the ownership only afterwards. A number of years can lie between these two transfer moments. According to research in the Netherlands, the transfer of management and ownership takes place simultaneously in 54 percent of the cases for transfers within the family (Van der Eijk, Flören and Jansen, 2004).

Along with ownership and control, knowledge too is transferred. Certain authors regard succession as a transfer of social capital from one generation to the next (Cabrera- Suarez et al., 2001). Social capital can be defined as the resources which are available in and through personal and business networks. These resources include information, ideas, contacts, opportunities, power, influence, emotional support, goodwill, trust and cooperation (Baker, 2000).

During the succession process an exchange of roles takes place between the representatives of the two generations (see particularly Handler, 1990). The active role of the transferor is gradually taken over by the successor. According to research, in most cases this evolution looks like this:

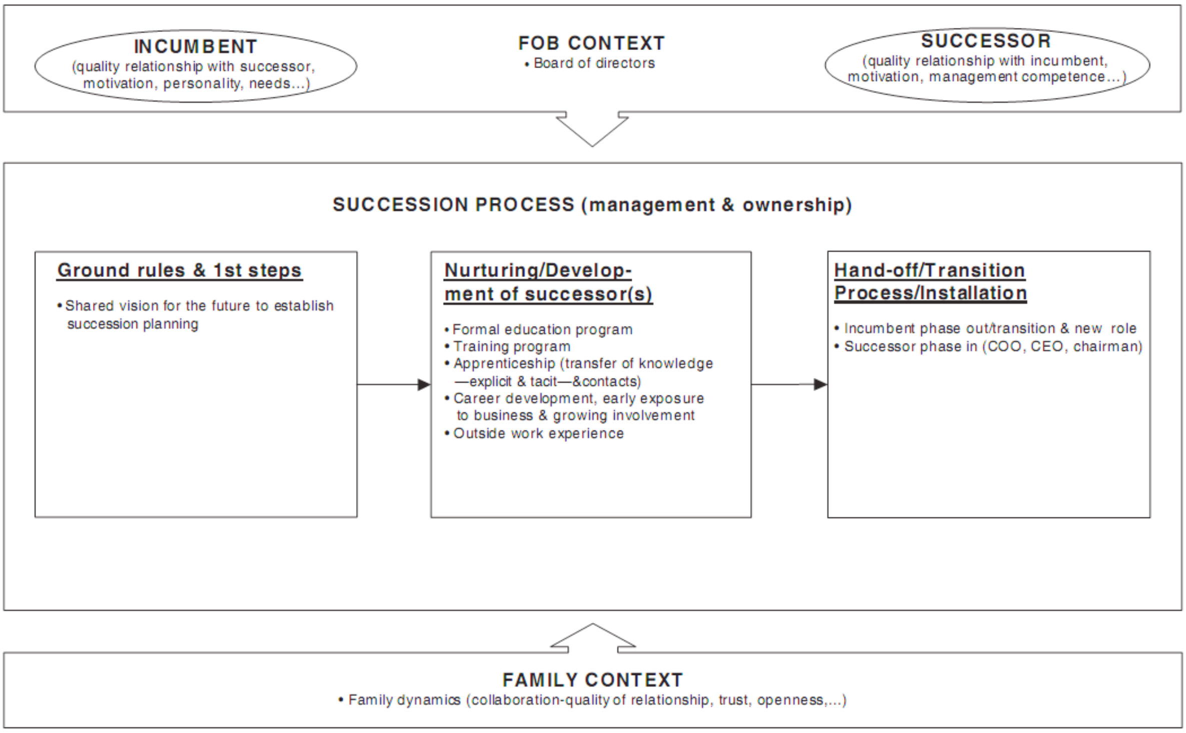
**Figure 1: Exchange of roles during the succession process (Handler, 1990)**




This figure shows how the respective roles of the transferor and the successor evolve during the succession process. When the successor joins the family business, he often encounters an almighty transferor around whom the family business revolves: a monarch, as it were. After the successor has gradually won his spurs as an assistant, he receives more and more management powers. Finally he becomes co-leader together with the transferor. In the final phase, the leadership of the family business is transferred to the successor and the transferor will function more as an advisor or consultant.

As described above succession is a complex process. This process and it's most important actors is also shown in the model of Le Breton-Miller, Miller and Steier (2004).

**Figure 2: The succession process model (Le Breton-Miller et al., 2004)**



The success of the process will very much depend on the relationship of the owner-manager and the successor, the approach of the successions process and the support from the family.

Because of the complexity there is a long list of reasons why business transfer is a risk for the continuity of a firm. A Dutch research report (ING & MKB, 2005) mentioned the following aspects of possible difficulties with the transfer process:

- The value of the firm is hard to measure in an objective way. This makes it difficult to establish a fair price. This becomes especially important when only some of the next generation members are inclined to take over the leadership of the firm;
- Emotional aspects. The owner-manager is emotionally very attached to his company and therefore not ready to let go. This often leads to postponement of the actual transfer;
- Tax issues;
- Difficulties in financing the deal, banks are risk averse and transaction costs are relatively high;
- Finding an external buyer when trans-generational succession is not an option. The owner-manager is reluctant to let the market know that his company is ‘for sale’. This hinders attracting potential buyers.

Miller, Steier and Le Breton-Miller (2003) describe potential conflicts with trans-generational succession. They stated that this type of transfer is predetermined by personal factors. The problems arise when there is a mismatch on the organization’s past and present. One of the typologies is the conservative succession: “the new CEO remains in many ways dependent on the old- even after the latter has quit or died. As a result, a period of strong leadership may be followed by one of conservatism in which strategies and organizations are locked in the past.” A Dutch study (BDO CampsObers Accountants & Adviseurs, 2008) highlighted the problem that the succession process often lacks a professional approach. For instance there are no formal feedback moments, it is unclear which specific activities have to be handed over and no intermediate goals are set during the succession process.

The complexity of the process is reflected in a high fail ratio for succession of family businesses. This high fail ratio and the expected increase in business transfers within the coming decade amounts to a large macroeconomic challenge. On European level efforts have been made  to reduce the risk by means of effective policy. Section 3 will give a short but integrated overview of the policy implications by the EU in recent years to deal with the problem of business transfer.

## 3. EU attempt to improve business transfer climate 1994-2009

Does the European Union or its national governments need to take action on the topic of business transfer? The question whether governments should formulate policy for small and medium sized enterprises (SME's), has been dealt with in recent literature (Bennett, 2008). The argument in favor of governmental interference usually comes from the believe that markets fail, e.g. small entrepreneurs may face imperfect information. More specifically, Mole (2008) argues that SME's are often less aware of the benefits of advice or other business services that may be available and they are often reluctant to spend money on it. For instance research in the Netherlands (Matser et al., 2008) shows that the accountant is the most important advisor of the owner-manager. It is questionable if an accountant with its focus on the past has the skills and expertise to be an adequate advisor during the business transfer. Although there are arguments for a governmental role as a regulator, a supplier or to subsidise or stimulate private provision, Bennett (2008) argues to be cautious. He states that successful government intervention is difficult to realize with a positive cost-benefit analysis as a result.

The role of the European Commission is to stimulate, check and facilitate national governments in this role. Already in 1994 the European Commission labeled the transfer of business as one of the key issues of the European Commission's enterprise policy (EU, 1994). They saw the transfer as the third crucial phase in the life cycle of a business after the creation and growth of the business. The recommendations, published in December 1994, covered various areas which influence business transfer, including taxation and legal issues, access to finance and awareness raising issues. EU member states were encouraged to take action on these issues to provide an effective climate for business transfer and were asked to report to the EU in 1996 (EU, 1994).
In an official communication from the Commission on the transfer of small and medium sized enterprises the actions taken in the EU member states were evaluated in 1998. The overall conclusion was that the various suggestions set out in the recommendation have not been followed to an extent which would be sufficient to overcome the specific obstacles

met by businesses facing their transfer. The urgency to take action is emphasized by the focus on the expected high number of business transfer failures due to insufficient preparation (EU, 1998).

The final report of the Expert Group on the transfer of SMEs in 2002 reported the actions taken by 12 EU member states since 1998. The focus in the report lays on the best practices found in the various member states, These best practices are bundled in the 'good practice guide' of measures for supporting the transfer of businesses to new ownership. The aim of this brochure is to provide policy-makers and business support organisations with examples of practical support for business transfers. In this way the European Commission facilitates the valorization of knowledge on business transfer within the EU. With the communication 'Transfer of Business-Continuity through a new beginning' the commission of the European Commission (2006) evaluated the member states' implementation of the 1994 recommendation. The main conclusions were:

- Progress is not sufficient, only in about 55% of the areas of all the 1994 recommendations measures have been taken.
- Not enough is done to raise awareness for business transfer. More needs to be done to make the owner-manager aware of the need for a timely start with the preparation of the transfer. Also starters need to know more about the attractiveness of taking over an existing business instead of starting a new one.
- Financial environment is often not conducive to business transfer. For small businesses it can be difficult to finance the transfer because banks see this type of deals as unfavorable because of the relatively high risks and high transaction costs. For medium sized business not only debt but also equity and quasi equity (mezzanine finance) has to be found. Less than half of the 25 EU countries provide financial assistance for business transfer.
- There are no major problems for restructuring a business to prepare a transfer. In a large majority of the member states measures are necessary to allow a change of the legal form if necessary for a smooth transfer exist.
- Today it is easier to organize small companies as limited companies. A limited company makes the firm legally independent from the owner and makes it easier to distribute or purchase shares between heirs. This is a clear improvement from 1994.
- Continuity of partnerships can be ensured by partnership agreement. This becomes important when one of the partners dies. In general, it seems that legal systems

attach more importance to the right of the individual heir than to the continuity of the business.

- Inheritance taxes have been abolished or reduced in many countries. In 21 member states inheritance tax on business transfer no longer exists or there is a preferential treatment arranged to reduce the tax burden.
- There are not many tax reliefs for a sale to third persons available. A transfer to a third party can uncover taxable reserves, which leads to a very high progressive personal income taxation. This influences the price. A transfer to employees is often a good alternative for in transfer within a family. Only a few countries have encouraged this by special income tax reliefs.

On European level changes have been made but overall the progress towards the establishment of an effective climate for business transfer has not proven to be adequate. Section 3 shows that the European Commission deals with problems in diverse area's of the business transfer. A summary has been given by the EC in 2006 when they made six recommendations to reach a sufficient business transfer climate. The recommendations are:

1. Give political attention to both business transfer and start-ups;
2. Provide adequate financial conditions;
3. Raise awareness, consider soft factors and support mentoring;
4. Organize transparent markets for business transfers;
5. Ensure that tax systems are transfer-friendly;
6. Create appropriate structures to broadly implement the recommendations.

In this paper the focus is on the process of the business transfer. The European Commission agrees that awareness, preparation and appropriate structures are crucial elements in the business transfer (see recommendations 3 and 6). They state (2002) that lack of planning is one of the major reasons for failure of business transfer. Another way to see it is that with a proper planning, the stakeholders of a firm become aware of the complexity of the process and the possible difficulties they will encounter in their situation. Against this background the succession scorecard is introduced as a means to help prepare for succession. It is also explained how this instrument can be used to analyze some important policy areas.

## 4. The succession scorecard: an instrument to help prepare for succession

Succession is a complex process that is determined by many factors. The scorecard is a tool to make the business and it stakeholders more cautious about the success factors. The scorecard tries to envision a complete as possible view of the succession issues. Firstly, it brings factors to attention which the stakeholders may not have thought about. Secondly, the results provide useful information on the possible need for policy. Structurally frequent low scores on a certain topic should opt for reconsiderations with regard to future policy.

Given the complexity of succession, the scorecard obviously does not guarantee that the succession will succeed if there is a positive score. The scorecard has to be seen as a guideline which helps the stakeholders think about the succession. It can be a starting point for a transfer plan and a way to start the communication between the stakeholders about important issues.

The concept of a scorecard is chosen instead of a measurement tool with generates an overall score. This is in line with the balanced scorecard concept developed by Kaplan and Norton (2007). Kaplan and Norton argue that instead of focusing only on financial indicators managers have to monitor additional dimensions, like customers perspectives, as well. This balanced view is necessary to capture the complexities of today’s competition. Succession in family firms is also a complex process with various dimensions. Therefore a scorecard with multiple factors  better reflexes the ‘real life’ complexities.

The succession scorecard can be regarded as a starting point with regard to succession in family businesses. A website approach is adopted in order to guarantee high accessibility. A succession’s success is determined by a wide range of factors. The scorecard brings these factors together so that the entrepreneur can see where he stands at a glance. The succession scorecard is designed by Jozef Lievens and is based on international research with a focus on publications from Belgium. It was launched in 2007 in Belgium and in 2008 introduced to the Netherlands. It is now also available in French and English (www.scorecardsuccession.com). For certain specific industries an adjusted scorecard has been developed, e.g. the diamond.

How does the succession scorecard work?  The scorecard website consists of three levels. First the home page, with an overview of the ten success factors. Second, a first explanation of the various success factors and thirdly a self-test, which allows the respondent to check how he or she scores on the success factors. The self-test can be filled in by the incumbent leader, the (candidate) successor, the family shareholder or other stakeholders of the firm.

That the succession scorecard is a valuable tool is confirmed in the final report ‘The overview of Family Business Relevant Issues” (Mandle, 2008). KMU Forschung Austria conducted the study on behalf of the European Commission, Enterprise and Industry Directorate-General. The report indentified the lack of family firms’ awareness of the importance of timely planning for intergenerational business transfer as an important challenge. The report highlighted that an ill-prepared successions endangers the firms’ survival. The report gives two policy recommendations: firstly, establish and or continue awareness raising measures of the importance of planning business transfers as well as the provision of practical planning tools. Secondly, establish training for entrepreneurs and successors to prepare them to cope with the challenges of the transfer process. The experts who were involved in this research project assessed the succession scorecard as a valuable tool in executing the recommendations mentioned above. The scorecard was chosen as one of ten selected family business support instruments.

## 5. Content of the scorecard : 10 success factors

On the basis of literature (the scorecard is based inter alia on Barach and Ganitsky, 1995) and practical experience of the author ten elements for a successful succession have been identified. These factors have been used to create a scorecard with regard to succession: the more factors are present, the greater is the chance that the succession will be successfully completed.

*Success factor 1: The transferor finds a new role*

A succession cannot succeed if the transferor cannot let go. This inability is one of the most mentioned barriers in literature to successful transfer (Sharma et al., 2001). The transferor really holds the key for a successful succession in his own hands. If he proves obstructive, the succession process will take much more time and it will not go smoothly. It is well known that some transferors have difficulty in preparing and carrying out their own departure. Extensive research has been done on the psychodynamics underlying the transferor's resistance to succession (Lansberg, 1988).

In order to let go in a constructive manner, the transferor must attain certainty and security in four areas. A first area is that of security about the organisation of the family business. The objective of every entrepreneur should consist of preparing the business to be able to function without him. This means that the family business is organised and functions in a professional manner (Flamholtz and Randle, 2000). We find the main aspects of this in success factor number eight.

Secondly the family entrepreneur seeks security on the personal financial level. The key to financial security is adequate financial planning.

Thirdly, the entrepreneur seeks security on the level of his family. Here entrepreneurs sometimes strive for a false type of security. They hope that their children will follow in their footsteps and therefore obstinately refuse to see the reality before their eyes, for example when their children are not sufficiently competent to succeed them. Therefore it is vitally important here the parents have adult expectations with regard to their children and apply the same criteria to them as to other personnel members.

Finally, the entrepreneur also wants security on the personal psychological level. For many entrepreneurs, graciously taking one's leave is also difficult on the personal level. For the transferor, the possibility to engage in self-reflection will be an important aid in making it easier to let go. For entrepreneurs, however, self-reflection is not always evident (Kets de Vries, 1996, p. 214)

*Success factor 2: A capable and well-motivated successor becomes new leader*

Central in the succession process is that the management of the family business ends up in the hands of a competent and well-motivated successor. But what does this mean, what qualities are required of a successor? It appears  (Chrisman, Chua and Sharma, 1998) that the following characteristics are deemed important for candidate-successors: integrity, commitment to the family business, ability to command respect from the personnel, decisiveness and interpersonal skills. Other authors have divided the characteristics of candidate-successors into three categories (Ibrahim, Soufani and Poutziouris, 2003). First there are the leadership qualities which every manager must have. The second category consists of management skills. However, even more is expected from the future leaders of family businesses. They must demonstrate commitment and respect for the family. Just as important as the competence is the motivation of the successor (Venter, Boshoff and Maas, 2005). Successions work out a great deal better when the candidate-successor has a strong desire to lead the family business and also finds this a fascinating challenge (Dumas, Dupuis, Richer, & St.-Cyr, 1995; Venter et al., 2005; Stavrou, 1999, p. 51). Moreover, the successor must have had the freedom to choose to join the family business (Venter et al., 2005; Lambrecht and Lievens, 2006).

*Success factor 3: The relationship between the transferor and the successor is good*

A good relationship between transferor and successor is a crucial success factor for a smooth succession arrangement (Handler, 1989, p.152, Lansberg, 1988; Venter et al., 2005, Kets de Vries, 1996, p.213,). Empirical evidence shows that effective successors have significantly better relationships with their incumbent leaders than less effective successors (Goldberg and Wooldridge, 1993; Goldberg, 1996).

According to research, mutual respect and understanding are the most important characteristics of a good relationship. Other important components are trust, support, and feedback, learning from one another, fun and friendship (Handler, 1989, p. 149). Most successors say that a good relationship with the transferor must be built up over time. This implies that the relationship evolves from parent-child to that of colleagues in the family business (Schwass, 2005, p 42)

The positive relationship between successor and transferor is facilitated by a number of elements. One of these is a healthy sense of self-confidence on the part of the successor. Secondly, the successor must earn the transferor’s respect (Handler, 1989, p.155). Beside that it is important that the transferor grant the successor sufficient freedom (Lambrecht et al, 2006), which will only be possible if the transferor has a positive self-image (Handler, 1989, p. 156). This will contribute to the development of a mentor relationship, whereby the transferor can take pleasure in seeing that the successor is acting independently.

*Success factor 4: Good relations exist within the family*

Good family relations are perhaps the most important success factor for an optimal succession arrangement (Morris, Williams, Allen and Avila, 1997). In their book on family businesses, C. and E. Hoover (1999) argue that relational intelligence is the cornerstone of a successful family business. According to them, relational intelligence consists firstly of certain foundations, and secondly of the skills to put these foundations into practice. The foundations of relational intelligence are trust, respect and optimism. A high degree of trust among the various family members is of vital importance for building up good family relations. This applies all the more during the succession process, which is generally characterised by a climate of anxiety and uncertainty. Trust between the family members is an important bulwark against this.

Mutual respect among the family members is another important characteristic of good family relations. Thirdly, optimism about the family business is important. This entails above all that the family members have positive expectations for the future of the business and about their mutual relations. These foundations of relational intelligence will only be created, maintained and strengthened if the family possesses a number of essential skills. In a family business, open communication is the fuel of relational intelligence. Other important skills are: being able to solve problems constructively and adequate planning.

Sharma (2005) stresses the importance of family relations when she identifies two pillars for family firm performance: business performance and family harmony. She states that for long term success firms need ample stock of both financial capital and emotional capital. Successful family firms have 'warm hearts and deep pockets'. Where else firms that are financial successfully but were the family relationships have failed (pained hearts) have to focus on mending family relationships to guarantee long-term survival.

*Success factor 5: Governance of the company and of the family*

Succession is undoubtedly facilitated when the family and the family business score well in the field of governance (Lievens, 2004). For many family businesses the succession phase even induces the formation of governance mechanisms. Steier (2001) states that plural forms of governance can be a replacement for trust between family members. This is important because it may not always be possible to duplicate the high level of trust between first generation members to the second-generation relationships.

Governance in a family business consists of governance of both the company and the family. With regard to the governance of the company, an active board of directors is vitally important (Lievens, 2004). In a two-tier structure this means an active supervisory or advisory board. The board of directors have an important role in the succession phase (Van den Heuvel, van Gils & Voordeckers, 2006). The board can help the family define its vision of the future and above all objectify the succession process. The board of directors can make a major contribution by calmly examining the various succession options which the family has and accompanying the succession process. The board of directors can also play an important role in preparing the successor. Research confirms that the board has a controlling role to manage succession problems (Van den heuvel et al., 2006).

Along with governance of the company itself, a family business must pay attention to governance of the family or family governance. During the succession period this is even more important. Family governance consists of a shared owner's vision, a family structure and agreements.

In Belgium a voluntary Corporate Governance has been developed in 2005 called 'Code Buysse for non-listed companies'. It was updated in June 2009. The code consists of recommendations for all non-listed firms and one chapter is devoted to some specific governance recommendations for family firms such as succession, a family charter, and a family forum. To formalize family governance a family forum and/ or a family charter are useful. Every family is different, and so agreements must be custom-tailored. The content of the formal family governance also depends on the phase in which the family business finds itself, the size of the family, the number of active and passive shareholders, the culture of the family and the family business, the degree of harmony within the family, and so forth (Code Buysse, 2009).

*Success factor 6: The successor forms a team with non-family members*

It is important that the successor has an eye for the ambitions and aspirations of non-family members who are active in the family business. These include first of all the non-family managers. Conflicts amongst the (potential) successor and non-family managers can hamper successful succession (Bruce & Picard, 2006).

In their study "Team management of the family business" Lambrecht and Baetens (2005) list a number of precepts which must be taken into account by the family members' vis-à-vis outside managers:

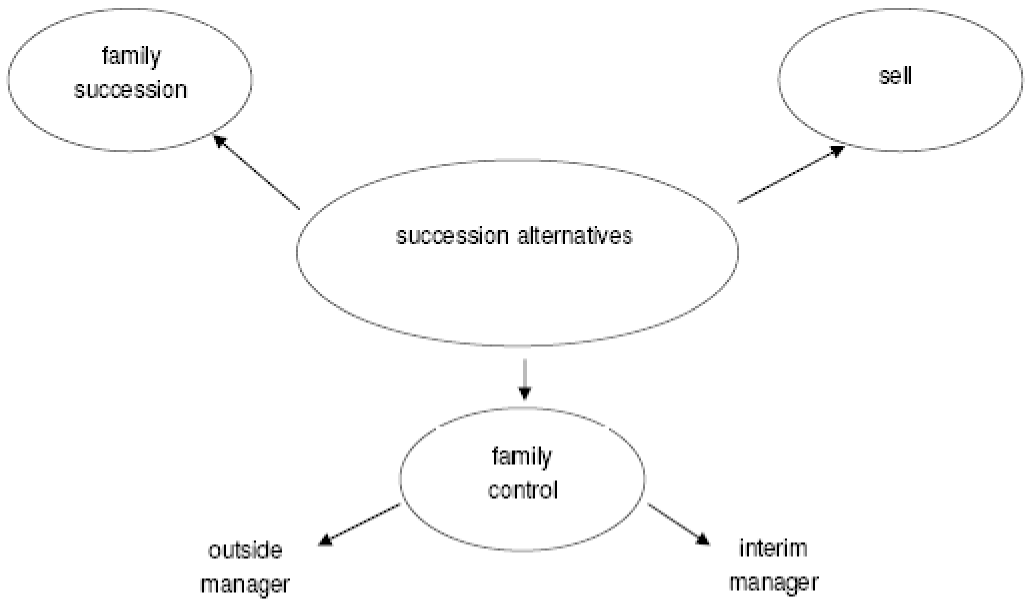
- Firstly, the non-family members want responsibilities and opportunities which correspond to their abilities. In this connection, it will sometimes be necessary to limit the number of active family members;
- Respect and recognition is the fuel of a good relationship with non-family members;
- One must communicate honestly with outside managers about the future;
- The outside managers must be involved in the strategy;
- Communication and information is a cornerstone in dealing with outside managers. Listening to them is extremely important;
- Finally, the family must have sufficient trust.

By putting effort in a good relationship with non-family members, the potential successor can grow trust and respect. This will positively influence his or her self-confidence in his or her ability to lead the company and possibly prevent future conflicts (Barach and Ganitsky, 1995).

*Success factor 7: All alternatives are thoroughly studied*

It is of the utmost importance that, before deciding about family succession, all alternatives once again are reviewed and carefully weighed against one another. Generally the family will have four alternatives, which are depicted in figure 3.

**Figure 3: Succession alternatives**



A very important motive for opting for a family succession (Matser et al., 2008) consists in giving your children a chance, offering them the possibility to develop themselves autonomously, i.e. as an independent entrepreneur. Naturally, there are other motives that prompt family entrepreneurs to opt for succession by a family member. First, family succession makes it possible for their personal ideas and values to live on. And second, the incumbent can remain in contact with the family business and perhaps even still exert a bit of influence over it (Leach and Bogod, 1999, p. 163). However research results ( Verduijn, 2009, Matser et al., 2008, Meijaard & Diephuis, 2004 & Ward, 1987 p.2) suggest a gap between the preferred option of the incumbent and the actual realized succession form. There are indications that fewer family successions are actually carried out than was expected beforehand. Therefore it is very important to consider alternatives, they may become necessary.

So, under certain circumstances, the sale of the family business will be an alternative that one must (dare to) look at. For many family entrepreneurs, this will not be an easy exercise (Van de Kimmenade, 2003). After all, for most entrepreneurs the formation and development of the family business entailed not just a financial, but also an emotional investment. There are several options for the sale: an initial public offering (IPO): a trade sale; a management buy in (MBI): or a management buy out (MBO). An IPO is often beyond the financial and technical capabilities of the existing owners (Poutziouris, 2002). In a MBO, often with outside financiers, the existing management takes over the company. If outside managers take over the firm it is called a MBI. Both in the case of a MBO or a MBI the company survives as a independent firm and unlike the case of a MBI it is likely that in MBO the family members can continue to be involved, although at a lesser degree (Scholes, Westhead and Burrows, 2008).

When a family succession is impossible and the family does not want to sell the family business, a call can be made on an outside manager to lead the company, whether temporarily or not. In this way, the family can retain the control over the family business, but it fills the gap which has developed on a managerial level. In certain cases it can be useful for the family business to call on an interim or "regency" manager. The latter assumes the management of the family business while waiting for the family successors to be fully prepared for their job. Moreover, they can be very valuable as mentors of the eventual successors. Studies have demonstrated that calling on such an interim manager can be an excellent choice from an economic perspective (Ward, 2005, p.63).

*Success factor 8: The family business is professionally run*

In order to allow for a smooth succession it is important that the family business is professionally run. As explained above, a professionally-led family business will offer the transferor the security that it will continue to perform well after his departure. And for the successor too it is important that he finds himself in a professional environment. Obviously, exceptionally well-performing family businesses have a strong business concept (product and market combinations), an ambitious vision and mission and a well-balanced strategy (Flamholtz et al, 2000). Timely professionalization in the areas of operating and management systems and business processes is important for the family business. Just like non-family businesses, family businesses therefore must professionalise in the areas of administration, accounting, sales, marketing, production, IT, transport, planning, structures, budgeting, performance measurement, communication, decision-making and so on. This is sometimes hindered by the founder´s vision (Van den Broeck and Sanders, 2004). Family businesses are frequently set up by strong personalities. Their idiosyncratic logic is hardwired into all of the processes, procedures, rules and habits. Over time this strength can become a weakness, because it stands in the way of professionalization.

*Success factor 9: The succession leads to a proper regulation of the ownership*

A large share of the literature and research on succession relates exclusively to the transfer of the management. However, the succession is only complete if the ownership is also transferred. One might erroneously think that the transfer of ownership is less emotionally-charged than the transfer of the management. In many cases, however, the opposite is the case. Here, too, tensions can develop, for example as a result of the question of whom amongst the children will be the owner(s) after the succession, or at what value or price the ownership of the family business will be transferred (Van der Eijck et al., 2004, p.32).

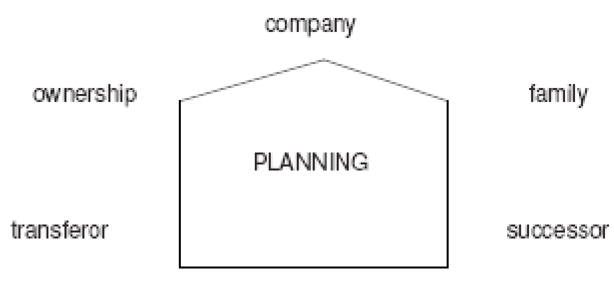
The choice of the transition mode of the ownership will be determined to a large extend by the tax law system of a specific country( Bjuggren & Sund, 2001). However it is crucial to focus on one general goal and that is the continuance of patient capital. Patient capital (De Visscher, Aronoff & Ward, 1995) is capital that is invested without the threat of liquidation for a long period. The generational outlook provides a focus on a long time horizon instead of short-term results. This patient capital acts as an important strategic advantage of family firms. However during succession various factors can have a negative influence, for instance inheritance tax obligations or cash requirements by next generation members. Therefore De Visscher et al. (1995) stress the importance of establishing a balance between capital requirements of the firm and cash requirements of the family. The family must plan for provision of both adequate shareholder liquidity and sufficient business capital, the personal objectives have to align with the requirements of the firm. Hereby a downward liquidity spiral can be prevented. To establish this careful planning and open communication is vital.

*Success factor 10: The succession is methodically approached*

Several studies have shown that a systematic approach is a major factor in implementing a successful succession (Kets de Vries, 1993). But only 27% of the family firms in the Netherlands have prepared for such a plan (Flören, 1998). Other literature confirms the lack of planning (e.g. Kets de Vries, 1993; Kirby and Lee, 1996) Remarkable is that, even when the succession is getting closer, the level of planning remains low (Malone, 1989; Seymour, 1993). Firms that have a written succession plan have significantly smoother business transfer than firms that don't (Meijaard, Uhlaner, Flören, Diephuis, Sanders, 2005; Morris et al., 1996). Although some researchers found a negative influence of for example tax planning on after succession performance (Morris et al., 1997).

The planning will generally first relate to the transfer of the management and then of the ownership. As figure 5 shows, in the succession planning framework addresses five poles: the family business itself, the family, the transferor, the successor and the ownership.

**Figure 4: Succession planning framework**




With this planning framework the success factors discussed before can be managed. Plans can be worked out around these five poles. For the firm a governance plan and a strategic plan will be necessary. The family has to formulate the owner's vision and have to work out the family governance system. For the transferor it is important to formulate his new role and make a financial plan. The (candidate) successor(s), depending on his experience and skills, will need a study plan and a mentoring plan. For the transfer of the ownership legal and tax planning are important. But also the set up of control structures and the establishment of a shareholders' agreement. However, not all families have to have all the plans mentioned above. What is truly necessary and useful will depend on the specifics of the particular case.

## 6. Findings from the succession scorecard web based tool

### Methodology

The scorecard is accessible through the web and consists of 50 questions related to the 10 success factors (Appendix 1). By answering the questions (true or false), the respondent receives instant feedback. The feedback is not an exact grade (2,4,6,8 or 10). Instead, the individual respondent receives a overview of the ten success factors divided in positive or negative outcomes.

The data from the questionnaires is also gathered for research purposes. For this research, the individual scores on each question are summed (two points for a correct answer and zero for an incorrect answer). This leads to an individual score on a scale from 0 to 10 for each respondent on each factor.

The interpretation of the results has to be done with considerable reservations. The respondents are free to use the website tool in a way they like. It's free, there are no restrictions and it's not checked. So it's not guaranteed that the data stems from genuine self evaluations from the various respondents. However, there are also not many reasons to think of why individuals wouldn't use it in the way it is intended.

Four website are online: www.scorecardopvolging.be (website for Flanders, Belgium), www.scorecardtransmission.be (website for Wallonia, Belgium), www.scorecardopvolging.nl (website for the Netherlands, officially launched on 15 March 2008). The fourth website www.scorecardsuccession.com is not included in this research, because of its few entries.

The data entered from 9th February 2008 until 16th of August 2009 is used, with a total of 1082 respondents. The (candidate) successors form the largest group with a total of 467 respondents (43.2%). A possible explanation could be that (candidate) successors are younger and that their generation uses the internet more frequently to gather information. For this group the web based approach is very appropriate. Another positive outcome of the tool is the variation in the background of the respondents; the questionnaire is used by all the stakeholders involved. The incumbent leader is the second largest group with 279 respondents (25.8%) The sizes of the other two groups are almost identical with 178 family shareholder respondents and 158 respondents who labelled themselves as ‘another capacity’.

**Reliability:**

The internal consistency or reliability of each factor of the scorecard is estimated by performing a Cronbach alpha test. A Cronbach alpha above 0.7 indicates a reliable set of items (De Vaus, 2002).

**Table 1: Reliability results**

| | 1.The transferor finds a new role | 2. The relationship is good | 3. Good relations in family | 4. Governance of business & family | 5. A capable and well- motivated successor | 6. Team with non family members | 7. Alternatives studied | 8. Business professionally run | 9. Proper transfer ownership | 10. Planning of the transfer |
|---|---|---|---|---|---|---|---|---|---|---|
| α | 0.55 | 0.76 | 0.79 | 0.65 | 0.67 | 0.62 | 0.73 | 0.72 | 0.06 | 0.72 |

After reviewing the results above, factor nine seems to have no internal consistency at all with a Cronbach alpha of 0,06. Therefore question nine will be excluded in further analyses and conclusions, but new questions will be suggested in this paper. Adjusted questions for question nine can be found in appendix 2.

The first factor; the transferor finds a new role, has a lower Cronbach alpha (0.55) than the suggested minimum for reliability as well. This factor will be included in the analysis and conclusions because of its importance, but the low alpha remains a point of concern.

Factors 2, 3, 7, 8 and 10 are internally reliable since their alphas are well above 0.7. Klein (1993) claims that a questionnaire with all alpha coefficients greater than 0.6 and five greater than 0.7 can be called satisfactory reliable. This questionnaire, with exception of factor one (α = 0.55) and the deleted factor nine, fulfils that claim. Therefore it can be concluded that the questionnaire is internally reliable and can be used for further analysis.

## Results

Firstly, an analysis is done towards possible differences between the Dutch respondents of the scorecard and the Belgian respondents of the scorecard. The results (to be found in appendix 3) show that, in general, the respondents score quite the same. Furthermore, the overall score for the Netherlands and Belgium are almost identical, 6.4 and 6.5. A t-test showed that this difference is not significant. Therefore it seems appropriate to analyse the data from the Netherlands and Belgium together.

So, for the rest of this paper the results shown are from all the respondents together. In table 2 the results from this analysis are shown for each group.

**Table 2: Scorecard results overall and for each capacity**

| | **1.The transferor finds a new role** | **2. The relationship is good** | **3. Good relations in family** | **4. Governance of business & family** | **5. A capable and well- motivated successor** | **6. Team with non family members** | **7. Alternatives studied** | **8. Business professionally run** | **10. Planning of the transfer** | **Overall Score** |
|---|---|---|---|---|---|---|---|---|---|---|
| *Overall (n=1082)* | 7.2 | 7.6 | 7.4 | 4.3 | 8.3 | 6.7 | 6.8 | 5.9 | 4.3 | **6.5** |
| *(Candidate) successor (n =467 )* | 6.9 | 7.4 | 7.3 | 4.0 | 8.8 | 6.8 | 7.1 | 5.4 | 3.7 | **6.4** |
| *Incumbent leader (n =279 )* | 7.7*** | 8.5*** | 8.3*** | 4.5*** | 8.2*** | 7.0 | 7.3 | 6.6*** | 4.9*** | **7.0*** ** |
| *Family shareholder (n =178 )* | 7.0 | 6.9 | 6.7 | 4.3 | 7.6 | 6.0 | 5.8 | 5.8 | 4.8 | **6.1** |
| *Another capability (n =158)* | 7.5 | 7.7 | 7.4 | 4.9 | 8.0 | 6.4 | 6.4 | 6.2 | 4.5 | **6.5** |

*Difference between (candidate) successor and incumbent leader significant at *** 1%.*

There are clear differences in the scores between the various groups. Especially the group who labelled themselves as 'family shareholder' evaluated the success factors relatively low (6.1), followed by the successor with an average score of 6.4. The incumbent leaders are the most positive about the whole succession with an average of 7.0. This difference is tested with a t-test and found to be significant at a 1% level. Possible explanations can be found in the separate success factors. Especially on the factors business professionally run and planning of transfer, the incumbent leader shows to be more positive then the successor. Another interesting difference is found in the factors involving both the incumbent leader and the successor; the transferor finds a new role and the relationship between successor and incumbent leader is good. On both success factors the transferor is significantly more positive then the candidate successor.

In general, the results support some of the earlier described problems. Mandle's rapport 'The overview of Family Business Relevant Issues" (2008) is mentioned earlier, which identified the lack of family firms awareness of the transfer planning. The results of the scorecard confirm that all stakeholders are not aware of the importance of timely planning of the business transfer and the importance of this factor for a successful business transfer.

The overall score for 'Governance of business and family' is the same as for transfer planning, 4.3 out of 10. Interestingly enough this factor is about as low in the Netherlands (4.1) as it is in Belgium (4.4), where the code Buysse was introduced 4 years ago. Although this small difference is significant (1%), a larger difference would have been expected given the introduced code.

The other low scoring factors are 'Business professionally run' and 'Alternatives studied'. But with respective averages of 6.8 and 5.9, the attention should focus on the previously described low scoring factors.

**Table 3: Top 3 success factors with the highest scores**

| | **Successor** | **Incumbent leader** | **Family shareholder** | **Others** |
|---|---|---|---|---|
| **1.** | Capable successor | Relationship | Capable successor | Capable successor |
| **2.** | Relationship | Family relations | New role | Relationship |
| **3.** | Family relations | Capable successor | Relationship | New role |

In table 3 the high scoring factors for each capacity are shown. Combining the four capacities four success factors have a high score: a capable successor; relationship between incumbent leader and successor is good; family relations are good; and the transferor finds a new role.

## 7. Discussion and conclusions

Since 1994 the European Commission is aware of the importance of successful business transfers for the economy. The policy makers are aware of the risk that a high number of viable businesses will fail succession due to insufficient preparation. Estimations are made that for Europe as a whole business transfers affects 690,000 SME firms and 2.8 million jobs every year. In 2006 the European Commission concluded that changes have been made but overall the progress towards the establishment of an effective climate for business transfer is unsatisfactory. This is also reflected in the scores shown in table 2: only 4 out of 10 success factors scores a 7 or higher. Especially the success factor about planning the business transfer shows a low score.

*Managerial implications:*

The scorecard succession can be a valuable tool to achieve awareness regarding succession. The scorecard provides a low threshold to family firms that want to assess their readiness with regard to succession. This has proven to be of importance as family firms are reluctant to make use of outside advice. Besides providing a first 'score' as to where the family business stands, they can quickly assess what the most important factors are. In this respect it also provides a guideline for the preparations ahead. The scorecard is not merely an instrument for successor and transferor. It can also be used by other actors or stakeholders such as other family members, consultants, trusted advisors or employees. In this way the scorecard can be used as a first step in creating more collaboration between all actors involved, focusing on the main issues. The analysis of the data showed that there are two aspects that deserves special attention of the owner-manager: governance of the business & the family and the planning of the transfer process itself.

The scorecard data is stored for research purposes. This serves two purposes. First of all the analysis of the available data can increase the understanding of the success factors behind trans-generational continuity. Secondly, a database can be created of firms that are involved in a specific phase of the succession process. It can allow independent, national family business support centers to offer the right services. In order to profit from these potential research capabilities some changes will have to be made. For example, respondent have to be aware that their input is used for research purposes.

Policy implications:

The analysis of the data stresses the importance of the European Commission attempt to help improve the business transfer process. It also underlined the conclusion made in Mandle's rapport wherein the family business relevant issues were stated. The results of the scorecard confirm that all stakeholders are not enough aware of the importance of timely planning of the business transfer and the importance of this factor for a successful business transfer. Therefore it is very important for that the European Commission stimulates that individual countries take action in these areas. A first step in the right direction would be the implementation of the succession scorecard in the various EU countries. The launching of the websites can be done by national family business support centers. The European Commission can stimulate this by providing the necessary funding.

By doing so the European Commission can invest in a concrete instrument to increase the number of successful successions. The gathered data could serve as a important data base for further research on this topic. For instance, it can be used as an evaluation instrument to see if in the coming years progression is made on increasing the awareness on the importance of the transfer planning.

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**Appendix 1: Scorecard succession statements:**

1 *The transferor finds a new role*

- The incumbent leader finds that the family business is professionally organized
- The incumbent leader has sufficient financial resources in reserve for after the succession
- The incumbent leader clearly knows what his activities will be after he has transferred the leadership of the family business
- The incumbent leader believes that the successor can lead the family business without him
- The incumbent leader has a positive attitude with regard to the succession

2 *A capable and well-motivated successor becomes a new leader*

- An atmosphere of trust prevails within the family
- An atmosphere of respect for one another prevails within the family
- The communication within the family is good
- Conflicts are constructively resolved within the family
- I think that our family business has a good future

3 *The relationship between the transferor and the successor is good*

- The board of directors of the family business meets at least three times a year for two hours
- In the board of directors of the family business there is at least one outside director (i.e. someone who is not a member of the family or of the personnel)
- A written family charter was drawn up within the family
- A family forum (or family council) exists within the family
- The family members have the same vision about the future of our family business

4 *Good relations exists within the family*

- The successor is well-trained to be able to lead the family business
- The successor deals well with people
- The successor wants to become the leader of the family business
- The successor respects the family members
- The successor has a good vision of the strategy of the family business

5 *Governance of the company and the family*

- The incumbent leader does not trust the successor
- The incumbent leader often gives positive feedback to the successor
- The incumbent leader and the successor can communicate well
- The successor receives a great deal of support from the incumbent leader
- There is mutual respect between the incumbent leader and the successor

6 *The successor forms a team with non-family members*

- Non-family managers are involved in the strategy of the family business

- There is a good communication with non-family managers
- Non-family managers enjoy the trust of the family
- In the family business, non-family managers do not get opportunities which correspond to their abilities
- In our family business there is little respect for non-family managers

7 *All alternatives are thoroughly studied*
- One will definitely opt for family succession, even if there are no competent successors
- There is no other solution than succession by a family member
- The idea of selling the family business is taboo under all circumstances
- Our family business can only be led by family members
- Our family stands as a single block behind the successor(s)

8 *The family business is professionally run*
- Our family business has a mission and a vision which is set down on paper
- Our family business has a written business plan
- Our family business has a well elaborated human resources policy
- Our family business scores well in the area of organization and administration
- Our family business is financially sound

9 *The succession leads to a proper regulation of the ownership*
- Non-active shareholders can help define the day-to-day policy of the family business
- All of the children will be treated equally in terms of ownership
- The succession-law consequences of the succession were studied
- Concrete agreements were made with regard to the proper role of the shareholders after the succession
- The shareholders can determine who can work in the family business

10 *The succession is methodically approached*
- There is a career plan for the successor
- There is a training plan for the successor
- The incumbent leader communicated on what date the leadership of the family business will be transferred
- There exists an emergency plan in case the incumbent leader dies prematurely or becomes disabled
- The succession has been studied from a legal and tax angle

**Appendix 2: New questions for success factor 9:** *the succession leads to a proper regulation of the ownership*

1. The settlement of ownership is sincere.
2. The shareholders have a similar vision.
3. Concrete agreements were made with regard to the proper role of the shareholders after the succession.
4. The rights and duties of shareholders are stated in the family charter.
5. Advice about the fiscal consequences of the succession is gathered externally.

## Appendix 3

**Table 4: Results scorecards Netherlands and Belgium**

| **Netherlands** | **1.The transferor finds a new role** | **2. The relationship is good** | **3. Good relations in family** | **4. Governance of business & family** | **5. A capable and well- motivated successor** | **6. Team with non family members** | **7. Alternatives studied** | **8. Business professionally run** | **10. Planning of the transfer** | **Overall Score** |
|---|---|---|---|---|---|---|---|---|---|---|
| *Overall (n = 325)* | 7,4 | 7,6 | 7,3 | 4,1 | 8,5 | 6,4 | 6,5 | 5,9 | 4,6 | **6,4** |
| *(Candidate) successor (n = 152)* | 7,4 | 7,9 | 7,6 | 4,0 | 9,1 | 6,7 | 7,3 | 5,5 | 3,9 | 6,5 |
| *Incumbent leader (n = 75)* | 7,9 | 8,0 | 7,9 | 4,5 | 8,2 | 6,6 | 6,1 | 6,8 | 5,3 | 6,8 |
| *Family shareholder (n = 54)* | 7,1 | 6,7 | 6,3 | 3,6 | 7,8 | 6,0 | 6,0 | 5,6 | 5,0 | 5,9 |
| *Another capability (n = 44)* | 7,1 | 6,7 | 6,7 | 4,4 | 8,1 | 5,5 | 5,1 | 6,2 | 5,0 | 6,1 |
| **Belgium** | | | | | | | | | | |
| *Overall (n = 757)* | 7,1** | 7,6 | 7,5 | 4,4** | 8,2 | 6,8*** | 7,0*** | 5,9 | 4,2** | **6,5** |
| *(Candidate) successor (n = 315)* | 6,7*** | 7,1*** | 7,1 | 4,1 | 8,6*** | 6,9 | 7,0 | 5,3 | 3,5 | 6,2* |
| *Incumbent leader (n = 204)* | 7,7 | 8,6 | 8,4 | 4,6 | 8,2 | 7,2 | 7,7*** | 6,5 | 4,7 | 7,0 |
| *Family shareholder (n = 124)* | 6,9 | 7,0 | 6,9 | 4,6** | 7,5 | 6,0 | 5,8 | 5,9 | 4,7 | 6,1 |
| *Another capability (n = 114)* | 7,6 | 8,1*** | 7,6 | 5,0 | 7,9 | 6,7*** | 6,9*** | 6,2 | 4,3 | 6,6 |

*Difference between NL and BE significant at *** 1% level, ** 5% level, * 10% level*