SUCCESSION FINANCING IN FAMILY FIRMS (SUMMARY)

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SUMMARY

SUCCESSION FINANCING IN FAMILY FIRMS

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Principal Topic

Succession is a key management challenge in family firms as it affects firm success and survival (e.g., Chittoor & Das, 2007). At this, succession involves a broad variety of management tasks such as successor selection, conflict handling or ownership transfer. However, all succession management efforts will be redundant if process-related financial requirements cannot be fulfilled (De Massis et al., 2008). Insufficient and inappropriate financing either impedes the succession process or constraints future firm growth. Accordingly, the question of how and why family firms employ a certain financial source for succession financing is important for successful succession outcomes.

So far, a vast body of research on family firm succession emerged; yet, most research has been focused on management transition (e.g., Sharma and Irving, 2005) and discussed the effects of personal, succession process factors and firm factors on succession outcomes. However, research on succession financing is virtually non-existent.

Method

Since the current owner-manager is the most important driver for initiating succession-related activities (Sharma et al., 2003), this research drew on insights from social psychology, capital structure and succession literature to study the influence of general and succession-related personal factors on the decision to use debt for financing future succession expenditures. Specifically, we investigated the owner-manager’s intention to use debt for succession. Furthermore, our model controls for several firm characteristics. The conceptual model was tested with a sample of 190 German family firms using a set of binary logistic regression models.

Results and Implications

The empirical results of our study provide support for multi-dimensional analyses of succession issues in family firms as we found significant relations between the intention to use debt and general and succession process-related personal factors as well as firm factors (controls). Specifically, our findings indicated that the owner-managers’ financial knowledge, prior succession experience, and firm growth have strong positive influences on the succession financing decision. Besides, the owner-managers’ attitude, financial experience, need for family control as well as succession planning and firm profitability were found to determine the future succession financing choices. We also contribute to the theory of family firms by showing that noneconomic variables influences decision-making behavior in family firms.

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