INVESTIGATING FACTORS AFFECTING FAMILY BUSINESS SUCCESSION: A BAYESIAN ANALYSIS (INTERACTIVE PAPER)

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INVESTIGATING FACTORS AFFECTING FAMILY BUSINESS SUCCESSION: A BAYESIAN ANALYSIS

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Principal Topics

Succession represents one of the most difficult issues in a family business' long-term performance. Extant research has focused on how myriad factors impact succession outcomes. For example, individual factors relate to specific characteristics of either the incumbent manager or potential successor, and interpersonal factors encompass how family and non-family members relate to each other. Process factors cover activities involved in succession as well as developing and then choosing a successor, and, governance factors include factors related to power distribution within a family firm. We seek to build on previous findings by employing Bayesian analysis to investigate succession. Because Bayesian analysis provides insights unavailable from more classical methods, scholars have increasingly employed it in organizational research.

Methods/Key Propositions

To examine succession factors, we surveyed 275 family business managers in the southeastern U.S. in 2012. We received 66 usable responses for a response rate of 24.0 percent. Respondents rated both the importance of 48 variables and assigned a percentage effect to each, based on how likely they thought it would prevent successful succession. We employed the former in the factor analysis to refine our constructs.

Results

We employed principal components factor analysis and excluded survey items that did not load highly on a specific factor, resulting in 23 items loading on four factors and explaining 79.8 percent of the variance. Based on the variables that loaded, we named the factors “individual/relationship,” “succession process,” “business context,” and “corporate governance,” respectively.

Based on the a-priori probabilities associated with our four constructs, the probability that succession would not take place was 47%. We then examined the effects of these constructs via sensitivity analysis by examining extreme cases for each factor (i.e., the probability of occurrence is certain (100%) or eliminated (0%)).

Our results show how managers can increase the chances of intra-family succession. For example, governance factors, such as a family business having a dual CEO/Chairman of the Board, decrease the probability of successful succession from 68 to 40 percent based on the sensitivity analysis.

Implications

Our results support previous research findings related to myriad factors impacting family succession. In addition, we highlight the importance of some controllable factors in this process.

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