

The Intervention Effects of Succession Planning on Offspring's Willingness to Take over Family Businesses—An Experimental Study Based on Behavioral Decision-Making and Opportunity Cost Theories^{*}

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ABSTRACT

The fact that offspring's willingness to take over family business is extremely low is a severe problem hindering Chinese family businesses' succession. This paper, based on behavioral decision-making theory and opportunity cost theory, identifies the decision-making attribute of offspring's willingness to take over the business first, then explores and verifies the intervention effects of succession planning and temporal distance on such willingness. Experimental data from 135 samples indicate: offspring's willingness to take over the business is significantly higher in the situation where parents develop a complete succession plan than in the situation where no succession plan is made; temporal distance moderates the effects of succession planning on offspring's willingness. The study is supposed to provide theoretical evidence and practical suggestions for family business to promote offspring's willingness to be the successor of family business.

Keywords: Family Business; Children's Willingness to Take Over the Business; Succession Planning; Intervention Effect

1. Introduction

Intergenerational transmission is a major change which affects the fate of the family business, especially for first-generation family business who inherits for the first time [1]. In the next few years, the family business of China will meet the largest intergenerational inheritance in the history [2]. Many scholars have pointed out that children's willingness to participate in and carry on the family business and their commitment to family business are the keys to family businesses' smooth transmission [3-5]. But children's low willingness to take over family business makes the China's family business whose main model is "inherited from his father" face a crisis of leaving no successor [6]. Report on the Development of Chinese Family Enterprises (2011) shows that: among the entrepreneurs investigated, for those who are over 50 years old, their children's succession willingness

accounts for 35%, while for older owner's children (average age is 35.7 years), their willingness to take over only accounts for 18% [2]. How to intervene in children's willingness and provide the necessary human capital for the family business is the challenge faced by practitioners and theorists of the family business.

The research related to offspring's willingness to take over family business is not much. Some existing research focuses on the family and the firm's characteristics, the children's personal qualities, market demand and other factors to predict willingness to succession [7,8]. These studies explain the current situation of willingness to succession, but because they put particular emphasis on static and external factors, it is difficult to provide an efficient way from the operational level for intervening children's succession willingness. Behavioral decision-making theory and opportunity cost theory provide a theoretical basis for intervening children's succession willingness in the short term. Existing research that relates to family business succession will take "whether to

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take over” as children’s career choices [7-9], while ignoring the forward attribute of the succession decision-making which is different from the ordinary young people’s employment options. The Person-Organization fit theory which is often used to explain self-employment options considers that individuals choose future employers according to how much the organizational characteristics (reputation, power, culture, compensation, etc.) match their needs and values. The decision-making information is clear, static, and before long the decision-makers make decisions, they will enter the organization to work [10]. While the children begin to consider their willingness to take over the family business from their youth [11], the actual handover tends to occur after 10 or even 20 years later and information for decision-making is dynamic and uncertain. Therefore, the “succession” is long-term decisions for the distant future. Based on the theory of behavioral change, plans will change the decision-making of individuals [12]. The family business decision-makers can use the distance of time points between the decision-making and the incident to develop and implement effective succession planning, so as to interfere in the children’s willingness to succession. The opportunity cost theory also provides an in-depth theoretical support for it. The opportunity cost is one of the core concepts of economics and it lies in the process of decision analysis. It refers to the potential interests of losses when you choose the best program and abandon the suboptimal program in the process of decision analysis [13]. On the contrary, the children do not take over family business and choose the external employment that means giving up the potential benefits of taking over the family property and becoming entrepreneurs. Uncertainty exists in both cases. Effective succession planning will reduce the uncertainty of the succession and increase the possibility of succession steadily and effectively [14,15]. Thereby it can improve the children’s expectations of opportunity cost for giving up the succession and then increase their willingness to succeed. At the same time, behavioral decision researchers found that the distance of time points between the decision-making and the incident will affect people’s perception of valence about future events then affect the individual decision-making [16]. In most cases, long-term events (compare to recent events) will make people have more positive thoughts, because people’s emotional state of their own in the long-term time will be better [17]. In this study, it means the earlier the parents enact the succession plan, the more favorable to enhance children’s succession willingness. According to behavioral decision-making theory, event valence is decision-makers’ expectation of the results for decision-making. Positive expectations (e.g., happy, satisfied) and negative expectations to the same thing (such as fear,

anxiety, regret) will lead to different decisions [18]. Family business researcher Hubler (1996) found in the process of research and consulting practice that the potential successor’s willingness may be low because they feel anxious about their ability to assume the important task of succession. However, careful succession planning, especially the training program can give them a clear cognition of future, and they will be more confident about the implement and effect of the plan, it can also reduce fear about the future, so as to enhance his succession willingness [12]. In addition, according to the theory of opportunity cost, if the family business develops a succession plan in the children’s young age, the children will feel the opportunity cost of giving up external employment is low, otherwise they will feel the opportunity cost is high, and his willingness to take over also will be affected. Thus, the temporal distance has a direct impact on the succession willingness, and it may adjust the effect of succession willingness by affecting the anticipatory effect of the succession plan.

In summary, this article is based on a lack of understanding of the realistic predicament and theoretical studies of the family business, and learning from behavioral decision-making theory and opportunity cost theory, it uses the experimental methods to explore the intervention effects of succession planning and temporal distance (the distance of time points between the decision-making and the incident) on offspring’s willingness to take over family businesses, and to consider the moderating effects of temporal distance on the relations between succession planning and the willingness to succession, so as to provide actionable recommendations to improve children’s willingness to take over the business.

2. Theoretical Foundation and Research Hypotheses

2.1. The Content Elements of Intergenerational Succession Planning and Its Impact on Offspring’s Willingness to Take over Family Business

Firstly it should be explicated what should be included in the intergenerational succession planning, since the focus of our research is to examine the function of the complete and effective succession planning to the succession willingness. In general, intergenerational succession planning means the necessary preparation to assure the family humanity and enterprise intergenerational succession, which should taken into account the needs of the future of the enterprise and family in the field of family business research [20]. However, scholars have not been able to reach a consensus on the content elements. Christensen (1953), the pioneer of the family business succes-

sion pointed out in its pioneering research on the succession of the family business that succession planning has three elements should be included as a process: the identification of potential successor, appointed successor and to communicate with other management personnel about the appointed determine [11]. Lansberg (1988) focused on the study of the heritage of the first-generation family business. He pointed out that the succession plan should be included to clarify and share the vision after the founder leaving the enterprise, the selection and training of successors and future senior management team, design power pass the procedures, the development of property plans to clear the family property and business ownership allocated among the members of the family younger generation, equipped organizations respond to management of change (including the Council for the Family, and management of the special working Group and the Board of Directors), and let them teach family members to identify future individual the rights and responsibilities of the role [20]. Sharma and other scholars (2003) systematic induction the elements of the succession plan for the first time by combing the relevant research literature, they think that the family business succession plan should include four elements: the selection and training of the successor, the formulation of business strategy after heritage, determine the role after the departure of the incumbent and communicate with key stakeholders of the succession decision [21]. As Sharma and other scholars (2003) concluded more integrated comprehensive, and it also used in the empirical research, this article used it to determine the content elements of succession planning. The discussion in this paper is the effect of succession planning on succession willingness of children, not the problem of successor. Therefore, we finalize four succession plans: Successors training, heritage decision communication, departure Role Orientation, and the enterprise strategy and management mechanisms after succession. The experimental situation questionnaire is designed in these four dimensions. Children need to balance two opportunity cost when they making succession decisions: First, the costs of loss external employment opportunities because succession; second, the cost of give up succession the family wealth and become entrepreneurs. There are large uncertainties among two opportunities; such as the external employment opportunities are unsatisfactory or successor business may also face the risk of could not competent. A complete and thorough succession plan can change children's cognitive to succession events and enhance the opportunity cost to give up of succession, so that children prefer succession when they balance the two opportunity cost. Family business researchers believe that an effective succession plan can greatly enhance the probability of succession, because it can provide good interpersonal atmosphere for

children, and make children have the necessary capacity by comprehensive training, make plans for the difficulties may face after the succession [22]; on the other hand, there are will be cause serious management problems because lack of succession planning, or even lead to the company collapse [23]. So it may be assumed that:

H1: develop a complete succession planning have an active effect on enhance the offspring's willingness.

2.2. The Effects of Temporal Distance on Succession Willingness and Its Impact on Offspring'S Willingness to Take Over family Business

Temporal distance is the interval between the decision time points and the incident time points. Behavioral decision researchers find that the temporal distance can change decision-makers' expectation to the future events results [24]. In most cases, long-term events (relative to recent events) will make people have more positive thoughts, because people estimate their long-term emotional state will be better [17]. Therefore, early arrangement of children's succession is beneficial to improve their succession willingness. But the current study find that the incumbents of family business, in particular the founders generally show reluctance to let go because they fear of losing the status of the parents, or distrust for others. The data shows that approximately 44.8% of family business owners do not consider the shift, the majority of family businesses is still lack of clear planning on whom to pass and how to pass [2], succession issues shall not be often considered the incumbent poor health only. At this time, the opportunity cost will increase undoubtedly for children to make decision to take over. Just think, if the parents tell their children to take over at their 59-year-old, it means children have to take over one year later, the children might have been thirty or forty years at that time, succession means giving up their own business foundation accumulated over the years, and the hasty succession will reduce the success probability, it is clear that the opportunity cost is higher; but if parents tell children to succeed earlier, for example, at 50 years old, which means children have to take over ten year later, this time children might be more than twenty years old, their career foundation is weak, and they have sufficient time to prepare for the succession, succession opportunity cost is relatively low, the succession willingness will rise. It may be assumed that:

Assumption 2: when temporal distance between succession decisions and succession events is short, children succession willingness is lower; but when the temporal distance is long, children succession willingness is higher.

Further analysis of the influence of time factor on succession willingness finds that temporal distance may ad-

just the effect of succession planning on children succession willingness by changing children's expectation for the implementation of succession planning. For example, Kuenster (1988) thinks that children will have more optimistic expectations to succession results, and thus more are willing to go into the family business, because it provides sufficient time to change the unfavorable factors and cope with stress if succession planning is made early [25]. On the contrary, if the parents have no time to plan for their own retirement, the family business may be collapse when they leave. In this case, children will be worried if they join the family business in their 45 - 50 years old, then once parents retire, they would face unemployment [26]. Therefore, the succession planning should be made as soon as possible to enhance succession willingness. It may be assumed that:

Assumption 3: when temporal distance is larger, the promotion effect of succession planning on children succession willingness is more significant than the temporal distance is smaller.

3. Research Methods

Previous studies have researched the factors that affect children's succession willingness from organizational, domestic and individual aspects, which were based on the traditional organizational behavior research methods. The basic assumption is that: an individual's willingness to succession is always the same in a same family business and the same situation. In order to change the succession willingness, we must transform relevant factors. Obviously it will be a difficult and long, even impossible process. In this paper, we will use the experimental methods and base on the behavioral decision-making perspective to carry out the research. Behavioral decision-making theory takes the economy and structural characteristics involved in the decision-making as a fixed factor and focuses on people's decision-making process so as to help people make better decisions [27,28]. Its basic assumption was that: in different situation, the same individual may make different decisions. This paper will not change the organization, family and the children's characteristics of a family firm and will use experimental methods to explore whether their succession willingness will change when the same children face the different succession planning and temporal distance in the family business. This experimental method has been widely used in the field of economic management and sociological research, but is still uncommon in the family business study.

3.1. The Sample

In this study, the samples are children of the family business who major in management from a high grade

provincial key university in Guangzhou, including undergraduate students, graduate students, and alumni. They are searching for a job, determining the direction of career development or just have embarked on the society, facing with the problem of re-making a career choice, and taking over the family business is one of their options. The samples' age distribution is between 19 - 28 years old, as Strain (1998) said; this is the age to make the decision on whether to inherit the family business decisions. 95% of the samples are college students from Guangdong province, where the family business developed earlier in China, and the district (Dongguan and Foshan) is one of the most densely populated areas, which are also the most prominent family business succession areas.

This research uses pen and paper test, requiring the subjects spend 25 - 30 minutes to complete the questionnaire. The subjects are voluntarily participating in the experiment, and the subjects must have not participated in similar test before. There are 157 subjects to participate in the study; a total of 135 participants completed the questionnaire. The sample characteristics are as follows: on grade distribution, undergraduate students accounts for 71.1%, postgraduate accounts for 6.7% and alumni accounted for 22.2%; on sex distribution, male accounted for 54.1%; the average age of the subjects is 21.9 years old.

3.2. Experimental Design

This research designed the Group experimental in the form of 2 (to develop a succession plan: with and without) \times 2 (temporal distance: long and short) that the factors between groups are whether developing succession planning and temporal distance. The participants were asked to evaluate their succession willingness under the four decision-making situations. To let they fully understand and integrate into the decision-making situations, the researchers introduced the four elements and its expected effects of the succession planning before the experiment, and guided the participants to imagine the decision-making situations: "This morning, your father (mother) talks to you to allow you to take over the family business". In the formal experiment, the researchers controlled on whether to develop a succession planning and the temporal distance, First of all, participants were asked to evaluate their own successive willingness when there with/without succession plans respectively under the premise of "Mom and Dad want you to take over in a year"; Then, participants were asked to evaluate their own willingness to succeed when there with/without succession plans respectively under the premise of "Mom and Dad want you to take over 10 years later". Thence, a total of 540 (135 \times 4) decision-making datum were col-

lected.

3.3. Variable Measuring

In our study, the dependent variable is the succession possibility in all decision-making Situations. We require the participants to answer the questions “how likely you to be the leaders and full responsibility for the business management?” We used Likert 6 o'clock scale measurements to analysis the decision results, and 1 stands for completely impossible, 6 entirely possible, the higher the score, the greater the possibility.

The independent variables and the manipulated variable of this study are the decision-making situations. According to the elements of succession planning built by Sharma and other scholars (2003), it should present two different independent variables level. The first level is: the parents have made a careful succession planning, including the successor training program, formulation of business strategy after succession, the role arrangements after father/mother (the responsible person) leaving, to clear the enterprise strategy and management mechanisms after succession. The second level is: the parents don't have any succession planning. Before the start of the experiment, we explain the elements factors of the succession planning:

1) The successor training program. Made detailed arrangements for training content, training methods, time and progress so that successor have the ventures required knowledge, experience, skills and entrepreneurship.

2) Exchanges succession decision-making. Do the detailed arrangements for how to described succession candidates, the process of inheritance, succession issues to family members and corporate management so that the successor can be supported and acceptance by the relevant staff.

3) The role arrangements after father/mother (the responsible person) leaving. do the detailed arrangements of status in the corporate and the interests after the parents take the decision-making to their children, and make this arrangement is identity by other relevant personnel and successor.

4) To clear the enterprise strategy and management mechanisms after succession. Detailed description the strategic plan and internal management mechanism after the parents leaving the family business, so that the successors clearly what to do and how to do it after he took office.

The manipulated variable is the temporal distance. Originally we have designed four distances: 1 year, 5 years, 10 years, and 20 years. But the pre-test found the subjects clearly lost patience for repeated four tests, meanwhile, they think it is difficult to imagine things after 10 years in their age and background; it is difficult

to distinguish the difference between 5 years and 10 years. Taking into account the purpose of our study is to explore the effect of making succession planning sooner or later on succession willingness, in reality, family businesses current leader often considering succession arrangements after they face the health problems or other special circumstances, and scholars predict it will face the peak in next 5 - 10 years, so we ended up using the distance of 1 year and 10 years, and to distinguish between the following statement “parents tell you that after 1 year they will retire” and “parents tell you that after 10 years they will retire”.

4. Hypothesis Testing

Hypothesis testing: we use the possibility of children willingness to take over as the dependent variable, whether to develop a succession planning and the distance of time points between the decision-making and the incident as the independent variable to analysis of variance. The main effect is significant of whether to develop a succession planning, $F(1,300) = 1126.63$, $p < 0.001$; the main effect is significant of temporal distance, $F(1,300) = 285.35$, $p < 0.001$; the interaction effect is significant of temporal distance and whether to make a succession planning, $F(1,300) = 111.13$, $p < 0.001$. The assumption has been verified. Further compare the effect of succession planning on willingness we find: when the temporal distance is long, the succession willingness that have succession planning to take over is significantly higher than the willingness of without succession plan (M with plans = 5.26 > M without plans = 2.90) ($p < 0.05$); while the temporal distance is short, the succession willingness that have succession plan to take over is significantly higher than the willingness of without succession plan (M with plans = 3.25 > M without plans = 1.52) ($p < 0.05$), but the significance level is significantly lower than the long distance time context. From the significant differences of succession planning on offspring's willingness to takeover we know that temporal distance plays a regulate role, Assumption 2 is further confirmed.

5. Conclusions

Starting from the real problem, based on behavioral decision-making and the opportunity cost theory, we use the experimental methods to explore the interventions on children's willingness to succession. Firstly, we make a new research perspective different from the previous, which clarify the long-term attribute of children's willingness to succession and distinguish with ordinary young people employment options. Then, we interpret the intervention effect on presence or absence of succession planning and succession decision point to succession

event point through literature review which has been verified by experimental study. In the family business entrepreneurs of aging, intergenerational transmission peak is approaching. This study provides a theoretical basis and operational measure to solve the family business facing problem that “no successors” and to promote the smooth family business succession.

Experimental study data from 135 people of the family business undergraduates show that: the succession willingness with complete succession planning is significantly higher than the succession willingness without comprehensive succession planning if other factors remain unchanged. This suggests the incumbents that when they let their children make the succession choice, they can simultaneously show a complete succession plan which can effectively enhance the child's willingness to succeed. This conclusion makes it possible that intervention in children's succession willingness, in a short, also makes up for the existing research blank of intervention succession willingness and enables people to have a new understanding of succession planning. Existing studies have focused on exploring the front variables and backward utility that affect making and implementing succession planning, but few are concerned about the reverse function of succession planning on succession willingness. For example, Sharma (2003) [21] and Dou Jun-sheng, Jia Sheng-hua (2007) [29] explore the effect that incumbents and children succession willingness on formulating and implementing of succession planning based on the theory of behavior. Morris, etc. (1997) pointed out that the degree of readiness of the successor, the relationship between the members of the family, the type of planning and controlling activity and other factors determine the results of intergenerational transmission [30]. In this paper, thanks to the theory of behavioral decision-making and opportunity cost, we use a new perspective, and have a new understanding about the reverse function of succession planning on succession willingness.

The results also show that in different temporal distance, the possibility of whether the children would like to take over is different. When temporal distance is short, children's willingness to succeed is low; when temporal distance is long, children's willingness to succeed is high. The inspiration that the conclusion brings to our practice is that: The current family business owners should take precautions, guide their children to make the succession choice as soon as possible, so as to avoid the succession willingness will randomly reduce as cost growth when their children grow older. The conclusion of this study is that the moderating effects of temporal distance on the succession planning and the succession willingness further remind the family business owner to pay attention to

the effect of time factor on children's willingness and the succession results, because the time distance not only has direct impact on children's succession willingness, but also can make the influence of succession plan on succession willingness more significant when the time distance is longer, and less significant when the time distance is shorter. This is a warning for family business owners who are “reluctant to let go”. The succession is an inevitable question for family business [31], the owners can only take action on several options of “take action now or take action in the future” [32], even “take action after the death” [33]. According to the study, the family business owners should not only make succession decisions early, but also make a succession planning as soon as possible, which will not only ensure the performance of the succession, but also improve children's willingness to take over the business.

In this study, there are some limitations: first, this study only uses students who come from the same university as samples and its typicality and representativeness are restricted. Therefore, whether the conclusions of this study are applicable to other regions and age or other educational level should be verified by the further expanded scope of the sample. Second, this study only considers the succession planning as a whole variable to influence children's succession willingness, but not in-depth enough, analyzes the separately effect of different elements on succession intention. The contents in the succession planning (such as successor training program, formulation of business strategy after the succession, the role arrangements after parents leaving, the enterprise strategies and management mechanism after succession) will interfere in succession willingness, and more effective intervention to succession willingness has a great significance for raising children willingness to take over quickly and effectively. Future research should provide a reliable basis for further optimization on the basis of the study design.

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