

Post-Succession Turnover in Family-Owned Businesses: A Theoretical Framework

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Transgenerational succession is a primary aim of family businesses. The succession event often has consequences for the employees of the firm. A particular risk is employee turnover in the aftermath of transgenerational succession. Understanding the factors that retain employees in the wake of a succession event is of vital importance. The model presented here offers insight into the importance of successor characteristics and the trust that they evoke in fostering family business employee retention. This work has significant implications for how to maintain efficiency after a succession event for family business scholars and managers alike.

Keywords: family business, turnover, nonfamily employees, succession, trustworthiness

INTRODUCTION

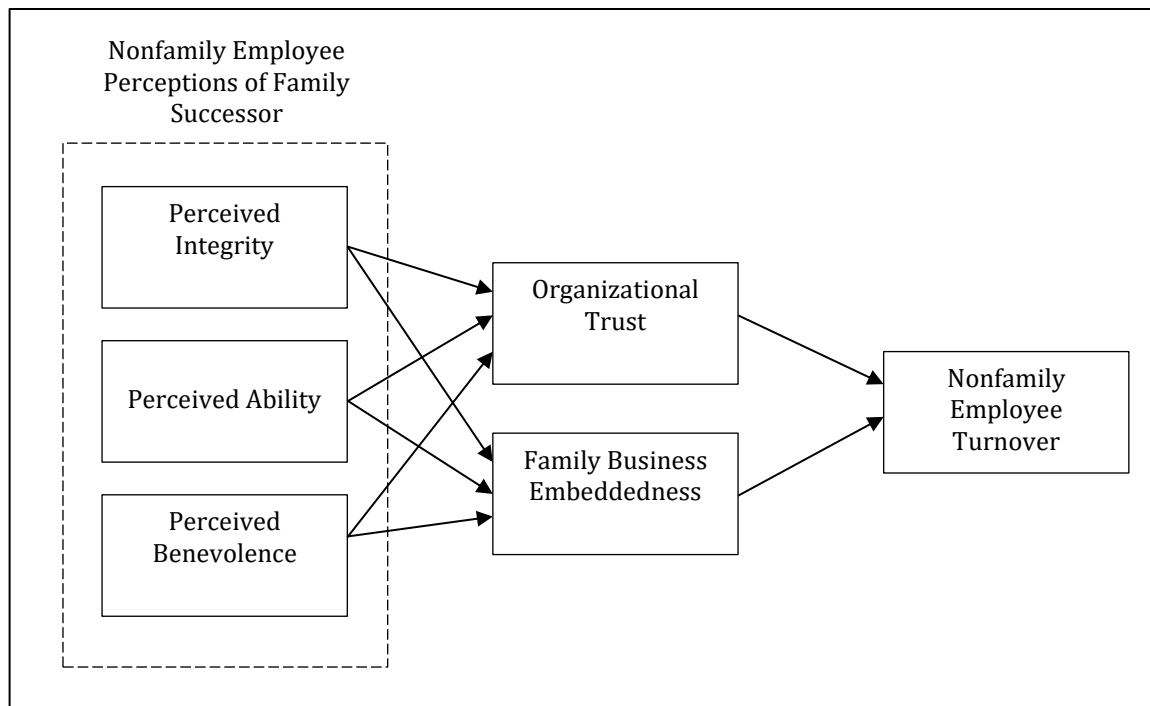
Transgenerational succession remains a topic of utmost importance both for family business research and practice (Calabrò, Minichilli, Amore, & Brogi, 2018; Richards, Kammerlander, & Zellweger, 2019; Vardaman & Montague-Mfuni, 2021). Family businesses have as one their imperatives that the founder pass the business on to a transgenerational family heir, therefore ensuring that the family's legacy is continued via the firm (Berrone, Cruz, & Gomez-Mejia, 2012; King, Meglio, Gomez-Mejia, Bauer, & De Massis, 2022; Minichilli, Nordqvist, Corbetta, & Amore, 2014). Past research has often focused on identifying a successor and managing the succession process (De Massis, Chua, & Chrisman, 2008; Handler, 1994; Sharma, Chrisman, & Chua, 2003). However, transgenerational succession also has an impact on the employees of the firm and, indeed, could have a significant impact on those employees (Tabor, Chrisman, Madison, & Vardaman, 2018). A specific area where succession may impact employees is turnover and retention.

Managing turnover may be particularly problematic in the context of family businesses. Family businesses are defined by Chua, Chrisman, and Sharma (1999, p. 25) as businesses “governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition

controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.” Family businesses are differentiated by a pursuit of noneconomic goals, such as generational sustainability, for the benefit of the dominant family even at the expense of economic gains (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007), which brings traditional approaches to retention into question. A desire for intra-family succession – also referred to as transgenerational intent – is a key distinguishing feature of a family business (Gersick, Davis, Hampton, & Lansberg, 1997). The cultivation of socioemotional wealth through succession, as well as other noneconomic pursuits, is a unique aspect of family businesses that may create stronger ties between employees and leadership (Gómez-Mejía et al., 2007). As such, the qualities of the successor in a family business may be quite impactful on the turnover intention of nonfamily employees. However, because of the scant understanding of the role of family business succession in the nonfamily employee turnover process, additional theorizing is needed.

Thus, this paper provides theory on how nonfamily employee perceptions of the family business successor may influence the turnover process for those individuals. Specifically, we suggest that if nonfamily employees perceive a family successor as possessing the positive attributes of integrity, benevolence, and ability, then turnover intent of those nonfamily employees will be reduced. Family businesses create a unique environment by sustaining family ownership, but the focus on socioemotional wealth in the succession process could be detrimental to nonfamily employees, especially if the successor is not seen as trustworthy. The stability of the organization encourages the development of organizational trust, while the familial nature creates the emotional context that establishes family embeddedness. Loss of organizational trust or family embeddedness may cause increased frustration and conflict that leads nonfamily employees to turnover (Davis, Schoorman, Mayer, & Tan, 2000; Khanin, Turel, & Mahto, 2012). A successor with these attributes reduces the chance of nonfamily employees losing organizational trust and embeddedness and could thus foster retention of nonfamily employees. The theoretical model is illustrated in Figure 1.

FIGURE 1
THEORETICAL MODEL



THEORY AND PROPOSITIONS

Family Businesses

Family businesses are owned and controlled by a dominant coalition of a single or small number of family members that shape the organization's vision and typically pursue generational sustainability (Chua et al., 1999). Family businesses are theorized to offer several advantages, such as enhanced business relationships, reduced agency costs, greater commitment and perseverance toward long term projects, and possession and dissemination of idiosyncratic firm knowledge (Habbershon & Williams, 1999; Le Breton-Miller & Miller, 2006; Lee, Lim, & Lim, 2003). Although most businesses will face a transfer of power at some point, an important distinction between family and nonfamily business is the desire for transgenerational intra-family succession (Chua et al., 1999). Family members have a personal stake in the business, both emotionally and financially, and succession drives socioemotional wealth by reinforcing family power and transgenerational vision (Gomez-Mejia, Cruz, Berrone, & De Castro, 2011; Morris, Williams, Allen, & Avila, 1997).

The benefits of intra-family succession extend beyond socioemotional wealth. For instance, successors often possess tacit knowledge gained through their intimate working relationships with other family member employees (Le Breton-Miller, Miller, & Steier, 2004). In a highly idiosyncratic business, a dominant family coalition will typically prefer a familial successor over a nonfamily one because of that idiosyncratic knowledge embedded in and obtained from family membership – an important source of competitive advantage (Ge & Campopiano, 2021; Royer, Simons, Boyd, & Rafferty, 2008). Furthermore, incorporating a nonfamily member into a position of power is a risk and often imposes additional monitoring costs on family stakeholders (Burkart, Panunzi, & Shleifer, 2003).

As the business operates into subsequent generations and ownership is dispersed, the opportunity for intra-family conflict grows and the need increases for communication between stakeholders (Gersick et al., 1997). Family ownership dispersion through successive generations often leads family businesses to transition away from family leadership and toward professionalization (Gomez-Mejia et al., 2011; McConaughy & Phillips, 1999; Reid & Adams, 2001). In this sense, professionalization is when a family business chooses to hire a nonfamily member for their expertise and specialization (Morris et al., 1997). Though development of family members, or even current nonfamily employees, is preferred, if possible, the succession process can have life or death consequences for family businesses. Consequently, when prospective successors signal a lack of interest or ability a family firm may be forced to incorporate external nonfamily members into positions of power within the business (Dyer, 1989; Lee et al., 2003; Schell, de Groot, Moog, & Hack, 2020).

Gersick and colleagues (1997) identified the development of an entry process for the next generation as one of the primary challenges of family business. Succession requires communication, agreement, and cooperation of incumbent, successor, and family to achieve satisfaction (Gagné, Marwick, Brun de Pontet, & Wrosch, 2021; Sharma et al., 2003). As Dyck et al. (2002) described it, the family business succession process is like a relay race baton transfer. In their example, the classic entrepreneur/founder manages the organization while the successor serves in an administrative/assistant capacity. As the point of succession nears, the successor gradually takes control of the organization while the still-acting incumbent manager gradually relinquishes power. Eventually the incumbent fully passes the baton and is phased out of the family firm in any official capacity (Dyck et al., 2002).

However, as relay race runners may occasionally drop the baton while attempting a handoff, the same is true of intra-family power transfers. Incumbent attitude, successor attitude, and succession planning all influence the succession process (de Alwis, 2016; Gagné et al., 2021; Sharma et al., 2003). The incumbent must be accepting of succession, willing to transfer power, and nurturing and supportive of the successor (de Alwis, 2016; Sharma et al., 2003). A frequent issue that arises during the succession process is the incumbent's reluctance to relinquish power to his successor, due to family pressure, low perceived successor ability, unexpected loss of successor, or an inability to let go of control of the organization (De Massis et al., 2008; Dyer & Handler, 1994).

Likewise, the successor could also be the focal point of failure. For instance, a succession may fail if the successor lacks the necessary motivation and ability levels required to effectively take over leadership (Le Breton-Miller et al., 2004). External forces such as family resistance through sibling rivalry, family stakeholder distrust, and incumbent pressure could impede a power transfer (Dyer & Handler, 1994; Gersick et al., 1997; Ward, 1997). Indeed, conflicts often arise during the succession process and require careful navigation to ensure a successful power transfer (Adil, Nasution, Samrin, & Rossanty, 2017).

The implications of the succession process for nonfamily employees are oft overlooked despite the importance of nonfamily workers to family firms, including during the succession process itself (Boberg, Bövers, Bormann, & Hoon, 2023; Wasim, Cunningham, Maxwell-Cole, & Taylor, 2018). For instance, a rocky power transition may lead nonfamily workers to question the successor's competence, which will likely contribute to nonfamily employee perceptions of nepotism (Churchill & Hatten, 1997; Samara, Jamali, & Parada, 2021). Greater insight is needed into the relationship between family firm succession, family managers, and nonfamily employees. Research estimates that over 80% of family business employees are not members of the family (Deloitte & Touche, 1999). The interaction between family and nonfamily employees is a key aspect of organizational growth, success, and credibility. In fact, under the right conditions, nonfamily employees may engage in stewardship behaviors (e.g., OCBs) similar to family employees of the firm's dominant coalition (Bormann, Backs, & Hoon, 2021). Family managers should aim to develop relationships with nonfamily employees early in their careers, as these relations are key to both survival and growth (Chua, Chrisman, & Sharma, 2003; Fiegener, Brown, Prince, & File, 1996; Lingo & Elmes, 2019). Chua et al. (2003) found succession and nonfamily manager relations ranked highest among family managers concerns.

The emotional aspect of the family firm creates a unique relationship between family managers and nonfamily employees because the desire to preserve socioemotional wealth drives family decision makers' choices regarding organizational governance, managerial processes, and other facets of the business (Gomez-Mejia et al., 2011). These decisions may ultimately influence nonfamily employee turnover because of the bifurcated treatment nonfamily employees are prone to experience working for family firms (Barnett & Kellermanns, 2006; Daspit, Madison, Barnett, & Long, 2018; Samara et al., 2021). Employees choose to leave organizations for many reasons, including job dissatisfaction, unsolicited job offers and shocks (Holtom, Mitchell, Lee, & Inderrieden, 2005; Lee & Mitchell, 1994; Mitchell, Holtom, Lee, Sablinski, & Erez, 2001). According to Mobley (1977), turnover is a decision process in which an employee experiences job dissatisfaction and uses a decision process to determine if turnover is an appropriate choice. Herzberg's (1959) two-factor approach concludes that job dissatisfaction arises from hygiene factors, such as company policy and administration, relationship with supervisor, and work conditions. Given the unique, socioemotional nature of the family firm, there is a constant influence on the nonfamily employees.

Nonfamily Employee Perceptions of Successor's Trustworthiness

Mayer, Davis, and Schoorman (1995) identified three primary determinants of trustworthiness: integrity, benevolence, and competence. Notably, they concluded that each individual component alone is not sufficient for establishing trust but instead a combination all three components are required. These three characteristics are similarly reflected in a study by Chrisman and colleagues (1998) that ranked the important traits of intra-family successors. Of the thirty traits investigated by these authors, integrity, respect from employees (benevolence), and decision making abilities and experience (ability) were three of the top four.

First, integrity is the degree to which the trustor believes the trustee will adhere to a set of principles, even when there are negative consequences of doing so (Mayer & Davis, 1999; McFall, 1987). Integrity is typically framed as a personal value using a moral perspective (Colquitt, Scott, & LePine, 2007) and oft linked with other traits, such as consistency, words and action congruence, and reliability (Mayer et al., 1995). Others have added compatibility, fairness, and character as key facets (Butler, 1991; Sitkin & Roth, 1993).

In a family firm, successor integrity extends beyond individual-to-individual interaction because it reflects the successor's contact with family, employees, suppliers, and customers. While research has shown

that employees will respond positively to the perceived levels of manager integrity, despite conflict with their personal beliefs (Mayer et al., 1995), nonfamily employees are notably affected by the perceived similarity between their own values and the family's values (Azouz, Antheaume, & Charles-Pauvers, 2021). All employees have high expectations for leaders to act trustworthy and ethical (Caldwell, Hayes, & Long, 2010), but such expectations are likely even more crucial to nonfamily employees in family firms because of their inherently vulnerable position relative to the dominant family (Davis, Allen, & Hayes, 2010). For example, the family's control over the firm's employee compensation structure allows them to easily give greater compensation to family employees (Samara et al., 2021). When employees perceive management as possessing integrity, they will be more likely to view the successor favorably. The family successor's integrity provides nonfamily employees with some reassurances regarding their future employment and, ultimately, should attenuate desires to exit the organization (Pimentel, Serras Pires, & Almeida, 2020). Therefore, we propose the following:

Proposition 1: *Nonfamily employee perceptions of successor integrity will be negatively related to turnover intentions.*

Second, benevolence is the extent to which the trustor thinks the trustee is motivated to achieve goals beneficial to the trustor (Mayer et al., 1995). Benevolence is typically demonstrated in a family business through the family's altruistic behaviors (Frost, Stimpson, & Maughan, 1978). Separate from integrity, benevolence represents a more personal connection between the trustor and the trustee (Mayer et al., 1995). When leadership serves the organization instead of personal needs, a frequent occurrence in family businesses, it will be perceived as more trustworthy and future business relationships will be perceived favorably (Joseph & Winston, 2005; Pindado, Requejo, & De La Torre, 2014). Prior research indicates that nonfamily employees are similarly impacted by the quality of their relationships with family managers (Razzak, Alam, Al Riyami, & Al Kharusi, 2023). Given that employee expectations of their future employment are rooted in their unfolding experiences, the perceived benevolence of the family successor should result in organizationally beneficial behaviors from nonfamily employees, including greater employee retention (Kirkland, Eisenberger, Lewis, & Wen, 2017; Zheng et al., 2016).

Proposition 2: *Nonfamily employee perceptions of successor benevolence will be negatively related to turnover intentions.*

Ability reflects the skills and attributes which enables a party to have influence within some specific situation (Mayer et al., 1995). It is a consideration of many different subcategories, including decision making ability and experience, education, experience in the family business, experience outside of the family business, and past performance (Chrisman et al., 1998). Successions are perceived to be smoother and more effective when the successor possesses a high level of ability (Le Breton-Miller et al., 2004; Morris et al., 1997). Highly idiosyncratic family businesses prefer family successors, regardless of ability, or in some cases will consider absorbing a high ability nonfamily employee through marriage to sustain knowledge and family control (Lee et al., 2003). Family businesses that engage in professional development of family members can strengthen their businesses long term (Le Breton-Miller et al., 2004; Verbeke & Kano, 2010). Nonfamily employees generally prefer greater professionalization in family firms because, although they may not derive socioemotional wealth, their continued employment and its financial benefits are contingent on the firm's survival (Block, 2011). As such, a competent family successor will likely receive greater support and commitment from the firm's nonfamily employees because of the positive impact that individual will have on the firm's success and survival.

Proposition 3: *Nonfamily employee perceptions of successor ability will be negatively related to turnover intentions.*

Organizational Trust

Trust captures a party's willingness to be vulnerable to another party on the expectation that party will perform an anticipated action regardless of any protection mechanisms (Mayer et al., 1995). In other words, trust reflects an individual's expectancy another individual or group can be relied upon. The perceptions of trustworthiness are crucial in determining one's propensity to trust (Colquitt et al., 2007). However, trustworthiness is only a predictor of trust, and not a guarantee of it, and should be thought of as a continuum (Mayer et al., 1995).

Family businesses generate advantage through their stability and perseverance in the market, which also provides long-term predictability and reliability to internal nonfamily employees (Lumpkin & Brigham, 2011). Perceptions of a family successor's qualities can affect this perceived dependability and potentially undermine nonfamily employee trust. Trusting employees view leadership as acting towards the benefit of the organization (Davis et al., 2000). These actions benefit the trustor and adhere to the trustor's principles of integrity and benevolence, establishing trust. Nonfamily employees should experience trust in leadership at a similar rate as family employees (Davis et al., 2000). The nonfamily employees have experience with the incumbent and the decision-making history of the organization, and the entrance of a new leader of the family business can create uncertainty for them. Nonfamily employees also desire to know that a successor has more than integrity and benevolence, but also the capability to make the smart decisions that adhere to these two principles. The loss of the dependability can reduce the level of organizational trust. Trust in the organization's management is a predictor of employee turnover (Davis et al., 2000). A successor with perceived high levels of integrity, benevolence, and ability provides assurance to the nonfamily employee that organization decisions will be smart and consistent, reducing the level of uncertainty. It is the actual commitment to trust that solidifies the relationship between the nonfamily employee perceptions of the successor and turnover.

***Proposition 4:** Organizational trust will mediate the relationship between nonfamily employee perceptions of successor trustworthiness to turnover intentions.*

Family-Business Embeddedness

The intertwining of family and business may create conflict as family members struggle between fulfilling economic and noneconomic goals (Steier, Chua, & Chrisman, 2009). Aldrich and Cliff (2003) called for a greater emphasis on the interaction between the family and business, noting that evolving family member roles influence the business. The family-business embeddedness perspective (FBEP) is a theory of organizational commitment that highlights the connectedness of business, controlling family, and symbolic values in the family firm in a way that mitigates conflict between family members (Khanin et al., 2012). Like job embeddedness theory, the FBEP is established through individual-individual connections (links), individual-organizational connections (fit), and emotional attachment to the organization (sacrifice), where an individual will develop psychological reasons for remaining with the organization (Mitchell et al., 2001). Job embeddedness theory fails to capture the symbolic and emotional contexts that apply to family members in the family business (Khanin et al., 2012). The emotional embeddedness of family members in the business encourages a variety of positive benefits, such as increased cohesion, reduced frustration and conflict, and increased job satisfaction in family employees (Cruz, Justo, & De Castro, 2012; Khanin et al., 2012).

The FBEP describes the benefits received by employees who are also members of the family but is central to the family business's employee's job satisfaction as well (Khanin et al., 2012). Though it highlights the emotional embeddedness of family members, the benefits spread to nonfamily employees as well. As Herzberg (1959) argued, job dissatisfaction is created by employee perception of company administration- the family managers in a family business, which can then lead to turnover in nonfamily employees. Intra-family successions are subject to intra family conflict, between siblings or cousins (Gersick et al., 1997). This conflict can create dissatisfaction in nonfamily employees and subsequently an increase in turnover.

Furthermore, this is an opportunity for the nonfamily employees and family successor to develop emotional ties with each other. Nonfamily employees experience the intertwining of family and business in a way that embeds them further into the organization than would be experienced in a nonfamily business. Positive perceptions of the successor's integrity, benevolence and ability would create the emotional ties reflected by FBEP. A family business experiencing FBEP will have a more positive nonfamily employee perception of family successor than would exist otherwise, therefore:

Proposition 5: *Family embeddedness will mediate the relationship between nonfamily employee perceptions of successor trustworthiness to turnover intentions.*

DISCUSSION

There are several notable implications from this model. First, the model demonstrates the outsize importance of successor characteristics for keeping family firm employees in the fold. The succession event serves as a shock to the system for the employees of the family firm (Vardaman, Allen, & Rogers, 2018). This shock can dislodge employees from the organization and send them on a path to turnover. The attributes of the successor can offset much of that shock by providing assurances that the organization is in good hands and that operations will function effectively even with new leadership. This is particularly important for family businesses, where concerns about nepotism or lack of qualification by the new leader could raise concerns among employees.

Another key component of the model is trust. Because of the importance of family-like cultures of family businesses, employees must trust the leader. Employees often take lower compensation and other pecuniary benefits in exchange for the safety and security of a family-like atmosphere (Marler, Vardaman, & Allen, 2021). For this arrangement to create efficiency and effectiveness, employees must have trust in the leader of the organization. Our model offers insight into how perceptions of the successor's attributes influence trust, with trust being an intervening mechanism between those perceptions and employee turnover intentions.

The model also offers practical insights. First, family firms must consider the perceptions of the chosen successor among the organization's personnel. This suggests a succession process is needed, where the family successor is introduced to the workers and gains confidence from the group during the process. Second, steps should be taken to alleviate any shock to the system from the succession event. Although some upheaval is unavoidable, family firms should attempt to lessen the shock to employees through various means, including a slow transition and frequent communication about the situation. Doing so could lessen the instability from the transition and help keep employees from leaving the organization.

CONCLUSION

Family businesses are distinguished by their socioemotional, noneconomic goals, including transgenerational intent. Familial power transfers can have dire implications for the firm's inherently vulnerable nonfamily personnel. Given the steep cost and consequences of employee turnover, understanding the factors that help retain nonfamily employees in the wake of a succession event is of vital importance. The model presented here offers insight into the importance of nonfamily employee perceptions of the family successor's trustworthiness in fostering family business employee retention. This work has significant implications for how to maintain efficiency after a succession event for family business scholars and managers alike.

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