

# Effects of the Characteristics of the Succession Process on Organizational Performance of Family Business Firms: Moderating Effects of Strategic Human Resource Management

Woo, Chang-Soo(Ph.D. Candidate, Ajou University)\*

Park, Ho-Hwan(Professor, Ajou University)\*\*

Choi, Myungweon(Assistant professor, Ajou University)\*\*\*

Oh, Jin Uk (Ph.D. student, Ajou University)\*\*\*\*

Jang, Myoung-Hak (Ph.D. student, Ajou University)\*\*\*\*\*

---

## Abstract

This study investigates the relationships between the characteristics of the succession process and organizational performance as well as the moderating roles of strategic HRM practices in these relationships. Data was collected from 256 successors and HR managers(128 for each) in South Korean family businesses where the succession process either had been completed or was currently underway around time of data collected and analyzed. Our results indicate that the provision of successor training is positively related to organizational performance, while the clarity of the incumbent's role after succession, communication of the decision regarding succession, and the incumbent's propensity to step aside are not significantly related to organizational performance. Further, our results confirm (a) the moderating effects of strategic staffing practices between communication of the decision regarding succession and organizational performance, and (b) the moderating effects of strategic staffing practices between the incumbent's propensity to step aside and organizational performance. The theoretical and practical implications of these findings are discussed.

*Keywords: family businesses, succession process, strategic HRM practices, organizational performance*

---

## 1. Introduction

The succession process of a family business firm is a critical change process that affects not only the members of the organization but also its economic and political climate(Kesner and Sehora, 1994). Accordingly, researchers who are interested in family businesses have found a variety of factors that influence the succession process and its consequences. For example, Sharma, Chrisman and Chua(2003) point out that successful

succession planning should start with the presence of a trusted successor, and that the need for succession to preserve family businesses should be secondary. In addition, recent studies have begun to systematically address the impact of effective succession on operational performance(e.g. Kim and Nam, 2013; Villalonga and Amit, 2006; Bennedsen et. al., 2007). The focus of the literature has been on the affected stakeholders such as sons/daughters, family members and incumbents. On the other hand, there has been a paucity of studies regarding employees as

---

\* First Author, Ph.D., Ajou University, cswoo13@gmail.com

\*\* Corresponding Author, Professor, Ajou University, hhprk@ajou.ac.kr

\*\*\* Co-Author, Assistant Professor, Ajou University, mwchoi@ajou.ac.kr

\*\*\*\* Co-Author, Ph.D., Ajou University, cls@ajou.ac.kr

\*\*\*\*\* Co-Author, Ph.D., Ajou University, qhtmaudgkr@ajou.ac.kr

· 투고일: 2015-07-09 · 수정일: 2015-08-23 · 게재확정일: 2015-08-27

key stakeholders(Schwendinger, 2011) with only a few exceptions. For example, Shen and Cannella(2002) argue that some post-succession executives may leave because of their dissatisfaction with their firms' succession decision. Ballinger and Schoorman(2007) predict that the quality of relationships with the prior leader will influence employees' affective reaction to that leader's departure, and this will influence their initial trust in the new leader. Some family business owners may think that a transition of ownership is the end of succession process. Yet, employees are also interested in post-succession changes in human resource management(HRM) practices, such as recruiting, rewarding, and conflict management, since HRM practices directly affect their lives in the organization(Kwnu and Jeong, 2012). Thus, if the succession process is to be successful, the roles and responsibilities of successors, owners, and other family members as well as the relationship with employees and HRM practices should be considered.

The purposes of this study are (1) to examine the relationship between the succession process and organizational performance and (2) to investigate whether the aforementioned relationship is moderated by strategic HRM practices in the context of family businesses. To this end, we review the previous literature and propose hypotheses regarding the succession process, HRM practices, and organizational performance in family businesses. The hypotheses are then tested with survey data collected from family businesses that had completed or been going through the succession process.

## II. Theoretical Background and Hypotheses

### 2.1 Defining the family businesses

Although Handler(1989) says that "defining the family firm is the first and most obvious challenge facing family business researchers", more than two decades later, the challenge still remains. Given the private nature of most family businesses, there has been no concise, measurable, and agreed upon definition of a family business(Astrachan and Shanker, 2003). Among various definitions in the literature, the most widely accepted definition is "a business 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" (Chua, Chrisman and Sharma, 1999). Unlike the aforementioned definition, Astrachan and Shanker(2003) create a

range of possible family business definitions from a broad, inclusive definition to a narrower and more exclusive one. The level of inclusiveness depends on the perceived degree of family involvement in the business. First, the broad definition is the most inclusive and requires only that there be some family participation in the business and that the family have control over the business' direction. Second, their intermediate definition holds that the business owner must intend to pass the business on to another member of his or her family, and that the founder or descendant of the founder plays a role in running the business. Third, their most restrictive definition states that family businesses may involve a founder as chairman, two or three siblings in top management, one sibling with ownership but no daily responsibilities, and younger cousins in entry-level positions.

In the Korean literature, Kim and Nam(2011) applies Astrachan and Shanker's narrowest definition to define Korean family businesses. Thus, regarding the context of Korean small and medium firms, we can define a family business as one owned and managed by a dominant coalition controlled by the owner's family members.

### 2.2 Succession process characteristics and organizational performance in family businesses

In the context of family firms, definitions of the succession process are also diverse. According to Beckhard and Burke(1983), family business succession entails "the passing of the leadership baton from the founder-owner to a successor who will either be a family member or a non-family member; that is, a professional manager"(Beckhard and Burke, 1983; Handler, 1994). Sharma et al.(2001) define it as "the actions and events that lead to the transition of leadership from one family member to another in family firms". Most studies emphasize that the succession process is not merely an independent event such as filling a leadership vacancy(Handler, 1990; Churchill and Hatten, 1997; Dyck et al., 2002). For example, Morris et al. (1997) propose a conceptual model consisting of three sets of determinants of successful family business transitions: the preparation level of the heirs, the nature of relationships among family members, and the types of planning and control activities engaged in by the management of the family business. Successful transitions, in turn, affect post-transition performance.

The succession process is based on the interaction across incumbents, successors, family members, and employees(Handler and Kram, 1988). Accordingly, it is necessary to portray the different perspectives of various stakeholders during the

succession process. First of all, in terms of incumbents, the succession process means minimizing their interventions in the transition of leadership. Since they play a role in managing and controlling the structure of the succession process in general, it is no exaggeration to say that establishing clear roles makes for a successful succession. Particularly in the case of Korea where Confucian values are still prevalent in family businesses, successors' decisions are heavily dependent on the founders who also happen to be their parents(Yan and Sorenson, 2006).

On the other hand, from the point of view of successors, the outcome of the succession process depends on the willingness of the successor to take over and the level of preparation of the successor(Dumas et al., 1995; Stavrou, 1999; Venter, Boshoff and Maas, 2005). The succession process also imposes significant changes on the family members. That is, family relationships need to be realigned, traditional patterns of influence are redistributed, and the ownership structure must give way to new structures(Lansberg, 1988). In terms of employees, succession is the transition of leadership. It is crucial to know whether employees accept the successor as a new leader in the organization. Especially because senior executive turnover will be detrimental to post-succession operational performance(Shen and Cannella, 2002), the succession process should be based on building trust with employees(Ballinger and Schoorman, 2007).

Drawing from different perspectives of various stakeholders, we have defined the succession process in terms of the following four characteristics: the provision of successor training, the clarity of the incumbent's post-succession role, communication of the succession decision, and the incumbent's propensity to step aside. First, family business should work out more effective approaches to developing a successor as a future leader through transferring tacit knowledge and the incumbent's contact networks(Cadieux, 2007; Fiegenger et al., 1994). Gaining a better understanding of how businesses operate and providing effective on-the-job training step by step are necessary for developing the successor's potential for success(Lansberg and Astranchan, 1994). A study focused on Korean small and medium businesses(Kim and Nam, 2013) finds that providing formal educational training and encouraging successors to develop their own capacities have a positive relationship with the effectiveness of the succession process(organizational performance).

Second, defining clear roles and responsibilities for the incumbent after succession should be considered. Predecessors are capable of playing new roles such as symbols, safeguards and observers of the business, technical supporters and consultants(Cadieux, 2007). In the absence of such planning, the sudden departure of the incumbent can cause a major upheaval of power, authority and conflict among heirs. Thoughtfully

developed succession plans for the incumbent can increase the likelihood of cooperation among stakeholders in the business, thus enhancing the chances of a satisfactory succession(Sharma et al., 2001). Third, both good a relationship between generations and communication among family members affect the effectiveness of succession(Cabrera-Suarez, De Saa-Perez and Garcia-Almeida, 2001). Successful succession is achieved by creating an environment that encourages open communication based on family harmony, cooperation and transference of knowledge(Kim and Nam, 2011). In addition, how much family members can demonstrate their regard for the employees as key stakeholders is an important factor in determining organizational performance(e.g., Handler, 1994; Barach and Ganisty, 1995).

Lastly, previous studies indicate that the succession process is largely under the control of incumbents' willingness to retire(Dyer, 1986; Handler, 1990; Lansberg, 1988). This key stakeholder has a considerable amount of power to influence the nature and timing of succession. The incumbent generally has enough legitimacy within the firm and the family to remain in power as long as he or she desires. In many cases, an incumbent has a difficult time visualizing life without a significant leadership role in the family business and may fear losing status in the family, as this may be closely intertwined with his or her role in the family business(Handler, 1990; Lansberg, 1988; Howorth and Ali, 2001).

When an incumbent is not willing to leave, succession may be delayed, or worse, commenced and then aborted. Even if succession is not delayed, a successor may feel negatively towards the incumbent who unofficially attempts to maintain strategic or operational control of the family business(Brun de Pontet et al. 2007). Thus, if an incumbent is willing to step aside, the likelihood of a satisfactory succession increases because such willingness indicates that the successor's leadership is needed and that the successor is accepted as a suitable replacement. Based on the above argument, we propose the following hypotheses.

*Hypothesis 1: Characteristics of the succession process have an influence on organizational performance.*

- 1.1: The provision of successor training has a positive influence on organizational performance.*
- 1.2: The clarity of the incumbent's post-succession role has a positive influence on organizational performance.*
- 1.3: Communication of the decision regarding succession has a positive influence on organizational performance.*
- 1.4: The incumbent's propensity to step aside has a positive influence on organizational performance.*

### 2.3 The moderating role of strategic HRM practices

As discussed earlier, strong theoretical and empirical support exists for the important role of the succession process on enhancing organizational performance(e.g., Kim and Nam, 2013). However, even though strategic HRM practices may decide the levels of organizational performance, studies on family businesses have largely neglected the role of strategic HRM issues. A number of features of strategic HRM practices encourage worker participation, which embraces employment security, cross-training, teamwork, performance-based pay, supportive HR policies, communication and involvement schemes(Godard and Delaney, 2000; Pfeffer, 1998). Since post-succession strategic HRM practices enhance employee motivation and organizational performance, the succession process and strategic HRM practices should be considered simultaneously.

Strategic human resource management has been defined as “a distinctive approach to employment management which seeks to achieve competitive advantage through the strategic deployment of a highly committed and capable workforce using an array of cultural, structural and personnel techniques”(Storey, 2001). The impact of strategic HRM practices on organizational performance has been the dominant research issue in the field. A plethora of studies have argued that strategic HRM practices are one of the most effective HR systems to enhance operational performance(Weon, 2007), and have demonstrated empirical links between such practices and improved organizational performance(Bae and Lawler, 2000; Huselid, 1995; Kwon, Jeong and Bae, 2010; Pfeffer, 1998).

The effect of strategic HRM practices on family business success has been considered. Many studies believe that strategic HRM practices in family businesses enhance employees' commitment, and thus affect organizational performance(De Cenzo and Robbins, 1994; Yao, 1996; Wagner, 2003). Astrachan and Kolenko(1994) found significant positive correlations among HR practices, gross firm revenues, and CEOs' personal income levels. Furthermore, they suggested that such practices are important for current competitive advantage, and may also be crucial to a business' longevity. Their study supports the proposition that in order to increase the capability of a family business, it is necessary to implement a management strategy for its human resources. Aycan(2005) points out that formal and objective compensation plans are needed for family business success and survival. In addition, King, Solomon and Fernald(2001) argue that the CEO needs to gradually implement a strategic plan for the firm's human resources. For instance,

early retirement could be offered to some older managers whose performance is questionable.

We expect that the association between succession and organizational performance may be strengthened by strategic HRM practices. To increase organizational performance through succession, family businesses need employees whose thoughts are proactive and adaptable to organizational changes. Organizational performance is not solely dependent on the leadership and capability of top management.

Bae and Lawler(2000) support the notion that strategic HRM practices promote attachment and commitment on the part of employees to their organizations, which in turn enhance the acquisition, development, and retention of qualified employees, thereby further promoting organizational performance. Accordingly, highly-qualified employees who are capable of adaption in situations of managerial turbulence(i.e., the transition of leadership from incumbents to successors) will understand the succession process and contribute to enhanced post-succession organizational performance. That is, the succession process and strategic HRM practices together will achieve the best organizational performance. The following hypotheses are therefore proposed:

*Hypothesis 2: Strategic HRM practices(strategic staffing, strategic training, strategic compensation) moderate the relationship between the characteristics of the succession process and organizational performance.*

- 2.1: *Strategic HRM practices(strategic staffing, strategic training, strategic compensation) moderate the relationship between the provision of successor training and organizational performance.*
- 2.2: *Strategic HRM practices(strategic staffing, strategic training, strategic compensation) moderate the relationship between the clarity of the incumbent's post-succession role and organizational performance.*
- 2.3: *Strategic HRM practices(strategic staffing, strategic training, strategic compensation) moderate the relationship between the communication of the decision regarding succession and organizational performance.*
- 2.4: *Strategic HRM practices(strategic staffing, strategic training, strategic compensation) moderate the relationship between the incumbent's propensity to step aside and organizational performance.*

<Table 1> Summarizes of operational definitions of the variables

Variable	Operational definition	Source
The provision of successor training	Training potential successors for their future role in the business	Sharma et al. (2000)
The clarity of the incumbent's post-succession role	Formal plan regarding the roles and responsibilities of the outgoing incumbent in the business once the leadership role was passed on to the successor	
Communication of the decision regarding succession	The decision of who the successor would be, was clearly communicated to family members active in the business	
The incumbent's propensity to step aside	The outgoing incumbent of our business did not want to let go of the leadership of the business	
Strategic staffing	Degree of the employee selection process for a job in this unit	Snell and Dean (1992), Youndt et al. (1996)
Strategic training	Degree of the different kinds of training programs for members of your work unit to attend	
Strategic compensation	Degree of the effort to measuring employee performance	

### III. Methods

#### 3.1 Sample and procedures

We collected self-report survey data between October and December of 2014 from successors and HR managers in family businesses where the succession process had been either completed or was ongoing at the time of data collection. Before distributing questionnaires, we conducted a pilot study. Since measures were translated from English into Korean, misinterpretation caused by linguistic or cultural differences might distort or exaggerate the intended statement(Hulin and Mayer, 1986). We asked a group of successors and HR managers to review the measure to see whether it was clear and easy to understand. On the basis of their feedback, we revised areas that might have caused misunderstanding.

We are aware that the use of self-reported questionnaires for all the variables in the study may increase the possibility of common method variance. In order to minimize this issue, we collected data from two different sources: successors and HR managers. Successors are CEOs who took over their businesses from family members or candidates for successors who currently work for their family businesses. They were asked to respond to

survey questions concerning succession processes and organizational performance. On the other hand, HR managers are officially general managers and heads of HR departments. Where they were unavailable, middle managers were provided a survey regarding strategic HRM practices and organizational performance. Both successors and HR managers were given same items concerning organizational performance.

We contacted 250 family businesses in various industries in Korea, and distributed the questionnaire to 500 successors and HR managers in total who were working for these companies. Demographics of the sample are presented in Table 2. In all, 256 responses (128 for each) were returned with a response rate of approximately 51 percent. After excluding four cases with incomplete responses, the final sample consisted of 248 respondents(124 for each). The majority of companies were manufacturing (81.5%), of which 47.6 percent had under 50 employees, and 31.5 percent had between 50 and 100. More than half of these companies were in the midst of a succession (71%). Among the 124 successors, 93.5 percent were male, with a mean age of 38.9 years (SD = 5.43) and a mean tenure of 10.57 years (SD =5.49).

<Table 2> Demographic characteristics of family businesses

Demographic characteristics		N	%
Industry	Manufacturing	170	68
	Service	40	16
	Else (Retailing, Transportation and Construction)	40	16
	Total	250	100
Firm size	Below 100 employees	150	60
	Above 100 employees	100	40
	Total	250	100
Firm age	Older than 30 years	80	32
	16 years to 30 years	100	40
	Younger than 15 years	70	28
	Total	250	100

#### 3.2 Measures

Previously validated measures appeared in peer-reviewed articles were utilized for this study. Unless otherwise indicated, respondents indicated their levels of agreement with each item on a 5-point Likert scale (1=strongly disagree to 5=strongly agree).

### 3.2.1 Characteristics of the succession process

To measure four characteristics of the succession process, we used the scales from the previous research of Sharma et al.(2000). Three indicators were used to measure perceptions about a firm's activity in the provision of successor training, three for the clarity of the incumbent's post-succession role; two for communication of the decision regarding succession; and two for the incumbent's propensity to step aside. Sample items included "Explicit efforts were made to train potential successors for their future role in the business" (the provision of successor training), "We had a formal plan regarding the roles and responsibilities of the outgoing incumbent in the business once the leadership role was passed on to the successor" (the clarity of the incumbent's post-succession role), "The decision of who the successor would be, was clearly communicated to family members active in the business" (communication of the decision regarding succession), and "The outgoing incumbent of our business did not want to let go of the leadership of the business (reverse)" (the incumbent's propensity to step aside). The inter-item reliability estimate (Cronbach's alpha) of the measure of each of the characteristics of succession process were .825, .779, and .713 respectively.

### 3.2.2 Strategic HRM practices

To measure strategic HRM practices, 18 items used to measure staffing, training, and compensation practices were derived in part from the items used in the previous research of Snell and Dean(1992) and Youndt et al.(1996). Sample items included "How extensive is the employee selection process for a job in this unit?" (staffing practices), "How many different kinds of training programs are available for members of your work unit to attend?" (training practices), and "How much effort is given to measuring employee performance?" (compensation practices).

The Cronbach's alphas of the measures of three HRM practices were .841, .752, and .624, respectively. That of compensation practices, .624, was slightly lower than the conventional criterion of .70(Nunnally, 1978). Nonetheless, the measure may be acceptable given that the study is exploratory in nature and that the items are grounded in the literature(Bernardi, 1994; Cortina, 1993; Hair, Tatham, Anderson and Black, 2006). Thus, we decided to use the measure but to interpret the results with caution.

### 3.2.3 Organizational performance

In this study, we measured organizational performance in terms of both operational performance and relational performance to better understand the consequences of the succession process. As it was impossible to obtain objective performance data of small

and medium-sized businesses, both operational and relational performance was measured relying on the subjective perception of successors and HR managers; the respondents were asked rate the extent to which they perceive operational and relational performance. The operational performance measure includes items regarding qualities of products and services, ability to attract and retain high performing employees, and subjective financial performance. The relational performance measure includes items about the relationships between management and employees as well as that among employees at large. We collected the survey responses from both the successor and the HR manager of each participating company, and the equally-weighted arithmetic average of the two responses was used as the score of each company. The Cronbach's alphas of the two measures of organizational performance were .832 and .852, respectively.

### 3.2.4 Control variables

In our analyses, we controlled for firm age, firm size (the number of employees), the age and gender of successors, and whether succession was complete, as previous studies(Hambrick and Mason, 1984; Karaevli, 2007; Tushman and Rosenkopf, 1996) had found these to correlate with organizational performance. In particular, we included successors' birth order (first son) as a control variable to account for any effect associated with Confucian values (preference for a family's first son over other children) that may influence organizational performance in Korea (Bertrand et al., 2008). Table 1 summarizes operational definitions of the variables.

### 3.2.5 Examination of the validity

In order to validate the proposed measurement model in the context of Korean family businesses, confirmatory factor analysis(CFA) should have been employed. Unfortunately, because of the marginal sample size, we had no choice but to do principal components analysis with varimax rotation as the method used for exploratory factor analysis(EFA). The result of the analysis was a rotated component matrix consisting of four components that account for 76.36% of the variance for characteristics of the succession process, three components that account for 57.86% of the variance for strategic HRM practices, and two components that account for 68.64% of the variance for organizational performance, respectively. In addition, all three variables have high value of factor loadings (>.60). Although no sound validity can be drawn from this analysis, it can be concluded that our measurement is appropriate as they load separately on different factors.

## IV. Results

Table 3 presents the means, standard deviations, and correlation matrices for all variables. As predicted by Hypotheses 1a and 1c, “the provision of successor training” and “communication of the decision regarding succession” are positively related to operational performance (measured in terms of operational performance and relational performance), providing preliminary support for the hypotheses.

To test our hypotheses, we conducted multiple regression

analyses with operational performance and relational performance as outcome variables. In step 1, the control variables(e.g., firm age, firm size) were entered as a set. In step 2, the characteristics of succession process were entered to examine their main effects on operational performance. A significant effect in this step would provide support for Hypothesis 1. In step 3, strategic HRM practices were entered. Finally, in step 4, the interaction terms obtained by multiplying the characteristics of the succession process by strategic HRM practices were included.

<Table 4> Descriptive statistics and zero-order correlations

	M	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Firm age a	3.228	0.579														
2. Firm size	0.524	0.501	0.243**													
3. Age of the successor a	3.652	0.140	0.228*	0.186*												
4. Gender of the successor b	3.581	1.098	0.117	-0.041	-0.073											
5. Birth order c	3.339	1.209	0.072	0.027	-0.066	0.702**										
6. Completion of the succession process d	0.290	0.456	0.032	0.111	0.394**	-0.080	-0.018									
7. Process 1	3.626	0.750	0.045	-0.023	-0.090	-0.063	-0.012	-0.005								
8. Process 2	2.933	0.795	0.027	-0.047	0.125	-0.076	0.007	0.077	0.428**							
9. Process 3	3.141	0.861	0.037	-0.022	0.013	-0.044	-0.066	0.050	0.462**	0.384**						
10. Process 4	3.020	0.891	-0.074	-0.124	0.020	0.192*	0.043	-0.135	-0.143	-0.050	-0.081					
11. Compensation	3.298	0.674	-0.101	-0.188*	-0.125	-0.093	-0.111	-0.104	0.169	0.065	0.185*	-0.239**				
12. Training	3.042	0.592	0.000	0.029	-0.015	-0.115	-0.065	-0.058	0.228*	0.183*	0.175	-0.148	0.532**			
13. Staffing	4.027	0.537	-0.049	0.078	0.000	-0.151	-0.077	-0.065	0.191*	0.127	0.068	-0.157	0.312**	0.414**		
14. Operational performance	3.261	0.469	-0.095	-0.081	-0.139	-0.129	-0.175	0.001	0.282**	0.097	0.181*	-0.046	0.441**	0.351**	0.313**	
15. Relational performance	3.700	0.508	-0.029	-0.071	-0.124	-0.118	-0.121	-0.094	0.252**	0.096	0.221*	-0.096	0.332**	0.255**	0.152	0.489**

+: p<0.10, \*: p<0.05, \*\*: p<0.01

a log transformed, b male = 1; female = 0, c first son = 1; others = 0, d succession being completed = 1; succession in progress = 0

process 1 = the provision of successor training; process 2 = the clarity of the incumbent's role after succession; process 3 = communication of the decision regarding succession; process 4 = the incumbent's propensity to step aside

<Table 4> Organizational performance regressed on the characteristics of the succession process and strategic HRM practices

Variable	Operational Performance				Relational Performance			
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Firm age	-0.035	-0.061	-0.023	-0.024	.026	-.004	.015	.014
Firm size	-0.045	-0.037	0.003	0.012	-.053	-.050	-.013	-.075
Age of the successor	-0.161	-0.126	-0.129	-0.157	-.109	-.073	-.069	-.052
Gender of the successor	-0.011	0.018	0.034	0.039	-.089	-.051	-.051	-.079
Birth order	-0.173	-0.183	-0.152	-0.193	-.067	-.075	-.052	-.072
Completion of the succession process	0.067	0.054	0.119	0.134	-.054	-.078	-.045	.023
Process 1		0.253*	0.189+	0.128		.179+	.150	.196+
Process 2		-0.02	-0.031	-0.028		-.029	-.030	-.119
Process 3		0.061	0.017	0.043		.141	.105	.145
Process 4		-0.001	0.113	0.061		-.064	.004	-.032
Compensation			0.318**	0.377**			.224*	.231+
Training			0.09	0.131			.074	.105
Staffing			0.161+	0.182+			.007	-.028
Process 1 × Compensation				0.041				.053
Process 2 × Compensation				-0.044				.221
Process 3 × Compensation				0.067				-.027
Process 4 × Compensation				0.056				.072
Process 1 × Training				-0.252				-.022
Process 2 × Training				0.217				-.039
Process 3 × Training				-0.016				-.136
Process 4 × Training				-0.075				-.078
Process 1 × Staffing				-0.059				-.108
Process 2 × Staffing				-0.095				-.015
Process 3 × Staffing				0.089				.285*
Process 4 × Staffing				-0.008				.264*
R2	.061	.137	.313	.355	.040	.115	.178	.288
Δ R2		.075	.176	.042		.074	.063	.110
Δ F		2.462*	9.408**	.532		2.373+	2.801*	1.267
Overall F	1.273	1.787+	3.852**	2.156**	.819	1.464	1.826*	1.585+

+: p<0.10, \*: p<0.05, \*\*: p<0.01

process 1 = the provision of successor training; process 2 = the clarity of the incumbent's role after succession; process 3 = communication of the decision regarding succession; process 4 = the incumbent's propensity to step aside

A significant effect in this step would indicate the existence of the moderating effect of strategic HRM practices, thereby supporting Hypothesis 2. To avoid multicollinearity issues, we used the centering procedure for regression analysis employing interaction terms (Aiken and West, 1991).

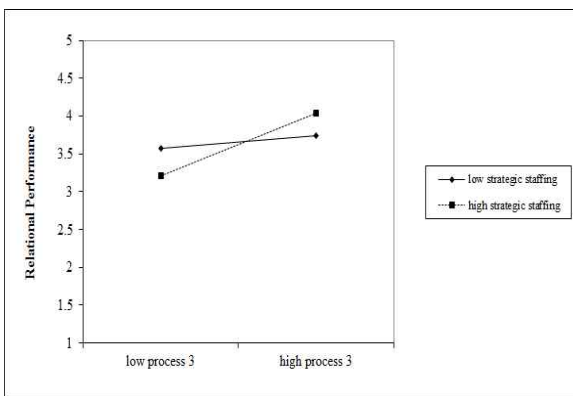
Table 4 presents the results of the hierarchical multiple regression analyses. With the characteristics potentially affecting the succession process and a firm's performance (firm age, firm size, age of the successor, gender of the successor, birth order, completion of the succession process) controlled for, the characteristics of the succession process as a set were significantly related to operational performance ( $\Delta R2 = 0.075$ ,

$\Delta F = 2.462$ ,  $p < .05$ ) and to relational performance ( $\Delta R2 = 0.074$ ,  $\Delta F = 2.373$ ,  $p < .10$ ). Specifically, process 1 had a significant main effect on operational performance ( $\beta = 0.253$ ,  $p < .05$ ) and relational performance ( $\beta = 0.179$ ,  $p < .10$ ). Overall, the findings provide support for Hypothesis 1 and suggest that, all else being equal, the provision of successor training is positively associated with a firm's operational and relational performance.

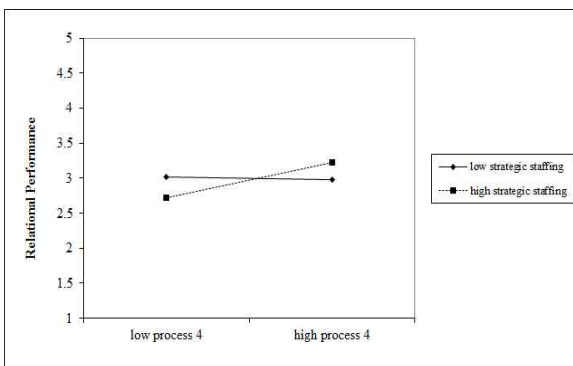
We introduced the interaction terms into the regression models to investigate the moderating effect of strategic HRM practices on the relationship between the succession process and operational performance. As a set, the interaction terms did not



account for significant incremental variance in operational and relational performance. The examination of the interaction terms show that “communication of the decision regarding succession” and “the propensity of incumbent to step aside” interact with strategic staffing to predict relational performance ( $\beta = .285, p < .05$ ;  $\beta = .264, p < .05$ , respectively). To support Hypothesis 2, the form of the interaction needed to conform to the hypothesized pattern. Following conventional procedures, we plotted simple slopes at one standard deviation above and below the mean of the moderator (strategic staffing). As Figure 1 shows, the slope of the relationship between “communication of the decision regarding succession” and relational performance was positive and significant under the high strategic staffing condition (simple slope = .407,  $t = 2.691, p < .01$ ), while their relationship was weaker and insignificant under the low strategic staffing condition (simple slope = .085,  $t = 1.367, p = .174$ ). Similarly, as Figure 2 shows, the slope of the relationship between “the propensity of incumbent to step aside” and relational performance was positive and significant under the high strategic staffing condition (simple slope = .254,  $t = 2.048, p < .05$ ), while their relationship was weaker and insignificant under the low strategic staffing condition (simple slope = -0.018,  $t = -0.287, p = .774$ ).



<Figure 1> The interaction between communication of the decision regarding succession and strategic staffing



<Figure 2> The interaction between the incumbent's propensity to step aside and strategic staffing

The findings show that the characteristics of the succession process—particularly, the provision of successor training—have a significant main effect on operational performance (both operational and relational), thereby providing support for Hypothesis 1a. In addition, strategic HRM practices—particularly, strategic staffing—had a significant moderating effect on the succession process—relational performance relationship. Specifically, the relationship was stronger when the staffing practice was highly strategic. Thus, Hypothesis 2d was supported.

## V. Discussion

### 5.1 Research summary and implications

The purpose of this study was to investigate (1) the relationship between the characteristics of the succession process and organizational performance and (2) the moderating role of strategic HRM practices on the aforementioned relationship. First, results of the regression demonstrated that the provision of successor training was positively related to organizational performance, while the clarity of the incumbent's post-succession role, communication of the decision regarding succession, and the incumbent's propensity to step aside were not significantly related to organizational performance.

As expected, the results demonstrate that successor training is critical during the succession process of family businesses. The reasons why other characteristics were not significant might be related to the recent economic recession and the unsystematic succession process in many small and medium-sized Korean businesses. For many years, these firms have undergone a brutal economic recession and, thus, have difficulties in performing effectively in the market. Moreover, in most cases, the succession process in small and medium-sized family businesses is not systematic; rather, it tends to be ad-hoc and unstructured, focusing mainly on some limited areas of the business. In order to verify our interpretation, we conducted post-hoc interviews with some of the survey respondents. They commonly said that “From our experience, we know that an effective succession process would increase organizational performance when the economic situation is favorable. However, it is not easy to increase sales and secure employment in these hard times, no matter how effective the succession process might be.”

Second, the magnitude of the effect of communication of the decision regarding succession and the incumbent's propensity to step aside depends on strategic staffing practices. Our findings reveal that communication of the decision regarding succession and the incumbent's propensity to step aside can have a stronger

influence on organizational performance when accompanied by strategic staffing practices, which include recruiting and retaining highly-qualified employees.

Contrary to our expectations, the hypothesized moderating effects of compensation and training were not significant. This may be due to the fact that small and medium-sized family businesses in South Korea are less likely to have systematic HRM practices, including the use of references, appraisal systems, a peer appraisal process, training assessment, or merit-based pay (Reid and Adams, 2001). Furthermore, family businesses favor more personal, direct, relationship-centered approaches to successor development; owner-managers prefer to maintain tight, personal, and informal control over operations rather than formalized, detached, and task-centered management (Fiegener et al., 1994; De Kok, Uhlener and Thurik, 2006). Therefore, the effect of interaction between the succession process and strategic HRM practices was less likely to be significant in small and medium-sized family businesses in Korea.

To conclude, the findings support our argument that the provision of successor training is positively related with organizational performance; and that strategic staffing practices must be combined with the provision of successor training in order to have more substantial influence on organizational performance.

This study has two important implications. First, unlike previous studies which focused only on family members, our research focuses also on HRM practices, thereby including employees who can be also key stakeholders. The findings of this study confirmed that the relationships between characteristics of the succession process and relational performance are moderated by strategic staffing practices. This calls for broadening perspectives of employees to family business literature, that affirms strategic HRM practices as a crucial instrument for successful succession.

Second, we propose a practical implication in terms of increasing organizational performance effectively by providing evidence of the interaction between the characteristics of succession process and strategic HRM practices. This implies that HR managers and family members should pay closer attention to professional management practices instead of simply preparing for succession if they wish to retain and enhance organizational performance.

## 5.2 Limitations and future research

Several caveats should be taken into consideration when interpreting the findings of this study. First of all, we used

subjective self-assessments of organizational performance. Thus, there might be a difference between actual performance and perceived performance, and common source bias needs to be considered (Meier and O'Toole, 2013). To minimize these issues, further studies would benefit from more rigorous and advanced methodologies (e.g., longitudinal studies) to ensure the accuracy of causal inferences.

Second, since it is very difficult to obtain a large sample of family businesses, the size of our sample was marginal. In addition, only two respondents were asked to respond to the same items of organizational performance. Thus, if future studies can gather a larger sample of family businesses where the succession process is already completed and collect longitudinal and objective data of post-succession performance, their results would be more meaningful.

Finally, we unfortunately failed to support some of the hypotheses we proposed based on the literature. In particular, the hypothesized relationships that “the clarity of the incumbent’s role after succession”, “communication of the decision regarding succession”, and “the incumbent’s propensity to step aside” with organizational performance were not supported. Even though we explained that the insignificant relationships might be due to the current economic situation affecting small and medium-sized family businesses in South Korea, future studies with a more rigorous research design need to be conducted to reinvestigate the relationships and verify our explanation.

## Reference

- Aiken, L. S. & West, S. G.(1991). *Multiple Regression: Testing and interpreting interactions*, Newbury Park, CA: Sage.
- Astrachan, J. H. & Kolenkom, T. A.(1994), A neglected factor explaining family business success: Human resource practices, *Family Business Review*, 17(3), 251-262.
- Astrachan, J. H. & Shanker, M. C.(2003). Family business contribution to the u.s. economy: a closer look, *Family Business Review*, 16(3), 121-130.
- Aycan, Z.(2005). The interplay between cultural and institutional/structural contingencies in human resource management practices, *International Journal of Human Resource Management*, 16(7), 1083-1119.
- Bae, J. & Lawler, J.(2000). Organizational and HRM strategies in Korea: Impact on firm performance in an emerging economy, *Academy of Management Journal*, 43(3), 502-517.
- Ballinger, G. A. & Schoorman, F. D.(2007). Individual Reactions to Leadership Succession in Workgroups, *Academy of Management Review*, 32(1), 118-136.
- Barach, J. A. & Gantisky, J. B.(1995), Successful Succession in Family Business, *Family Business Review*, 18(2), 131-155.

- Beckhard, R. & Burke, W.(1983). Preface, *Organizational Dynamics*, 12, 12.
- Bennedsen, M., Nielsen, K., Perez-Gonzalez, F. & Wolfenzon, D.(2007). Inside the Family Firm: The Role of Families in Succession Decisions and Performance, *Quarterly Journal of Economics*, 122(2), 647-691.
- Bernardi, R. A.(1994). Validating research results when Cronbach's alpha is below .70: A methodological procedure, *Educational and Psychological Measurement*, 54(3), 766-775.
- Bertrand, M., Johnson, S., Samphantharak, K., & Schoar, A. (2008). Mixing family with business: A study of Thai business groups and the families behind them, *Journal of Financial economics*, 88(3), 466-498.
- Brun de Pontet, S., Wrosch, C. & Gagne, M.(2007). An Exploration of the Generational Differences in Levels of Control Held Among Family Businesses Approaching Succession, *Family Business Review*, 20(4), 337-354.
- Cadieux, L.(2007). Succession in Small and Medium-Sized Family Business: Toward a Typology of Predecessor Roles During and After Instatement of the Successor, *Family Business Review*, 20(2), 95-109.
- Cabrera-Suarez, K., De Saa-Perez, P. & Garcia-Almeida, D.(2001). The Succession Process from a Resource-and Knowledge-Based View of the Family Firm, *Family Business Review*, 14(1), 37-46.
- Chua, J. H., Chrisman, J. J. & Sharma, P.(1999). Defining the family business by behavior, *Entrepreneurship Theory and Practice*, 29(5), 555-575.
- Churchill, N. C. & Hatten, K. J.(1997). Non-market-based transfers of wealth and power : A research framework for family business, *Family business Review*, 10(1), 53-67.
- Cortina, J. M.(1993). What is coefficient alpha? An examination of theory and applications, *Journal of Applied Psychology*, 78(1), 98-104.
- De Cenzo, D. A. & Robbins, S. P.(1994). *Human resource management: concepts and practices*, New York, John Wiley and Sons.
- De Kok, J. M., Uhlaner, L. M. & Thurik, A. R.(2006). Professional HRM Practices in Family Owned-Managed Enterprises, *Journal of Small Business Management*, 44(3), 441-460.
- Dumas, C., Dupuis, J. P., Richer, F. & St.-Cyr, L.(1995). Factors that influence the next generation's decision to take over the family farm, *Family Business Review*, 8(2), 99-120.
- Dyck, B., Mauws, M., Strake, F. A. & Mischke, G. A.(2002). Passing the baton: The importance of sequence, timing, technique and communication in executive succession, *Journal of Business Venturing*, 17(2), 143-162.
- Dyer, Jr. W. G.(1986). *Cultural Change in Family Firms: Anticipating and Managing Business and Family Transitions*, Jossey-Bass, San Francisco.
- Fiegenger, M. K., Brown, B. M., Prince, R. A. & File, K. M.(1994). A Comparison of Successor Development in Family and Nonfamily Businesses, *Family Business Review*, 7(4), 313-329.
- Godard, J. & Delaney, J.(2000)., Reflections on the high performance paradigms's implications for industrial relations as a field, *Industrial and Labor Relations Review*, 53(3), 482-502.
- Hair, J. F., Tatham, R. L., Anderson R. E. & Black, W.(2006). *Multivariate data analysis*, Pearson Prentice Hall, Upper Saddle River NJ.
- Hambrick, D. C. & Mason, P. A.(1984). Upper echelons: the organization as a reflection of its top managers, *Academy of Management Review*, 9(2), 193-206.
- Handler, W. C.(1989). Methodological Issues and Considerations in Studying Family Business, *Family Business Review*, 2(3), 257-275.
- \_\_\_\_\_ (1990). Succession in Family Firms: A Mutual Role Adjustment between Entrepreneur and Next-Generation Family Members, *Entrepreneurship Theory and Practice*, 14(3), 37-51.
- \_\_\_\_\_ (1994). Succession in Family Business: A Review of the Research, *Family Business Review*, 7(2), 133-157.
- Handler, W. C. & Kram, K. E.(1988). Succession in family firms: The problem of resistance, *Family Business Review*, 1(4), 361-381.
- Howorth, C. A. & Ali, Z.(2001). Family business succession in Portugal, *Family Business Review*, 14(3), 231-244.
- Hulin, C. L. & Mayer, L. J.(1986). Psychometric Equivalence of a Translation of the Job Descriptive Index into Hebrew, *Journal of Applied Psychology*, 71(1), 83-94.
- Huselid, M. A.(1995). The impact of human resource management practices on turnover, productivity and corporate financial performance, *Academy of Management Journal*, 38(3), 635-672.
- Karaevli, A.(2007). Performance consequences of new CEO 'outsiderness': Moderating effects of pre-and post-succession contexts, *Strategic Management Journal*, 28(7), 681-706.
- Kesner, I. F. & Sebor, T. C.(1994). Executive succession: Past, Present and Future, *Journal of Management*, 20(2), 327-372.
- Kim, S. H. & Nam, Y. H.(2011). A Literature Review on Stakeholder's Factors Affecting the Succession Process, *Asia Pacific Journal of Small Business*, 33(3), 23-48.
- \_\_\_\_\_ (2013). Incumbent and Successor-related Factors that Influence the Effective Succession Process in Family Business, *Review of business and economics*, 26(3), 1337-1359.
- King, S. W., Solomon, G. T. & Fernald, Jr. L. W.(2001). Issues in Growing a Family Business: A Strategic Human Resource Model, *Journal of Small Business Management*, 39(1), 3-13.
- Kwnu, M. Y. & Jeong, H. J.(2012). The Effect of Entrepreneurs' Characteristic, Technological Capabilities and Network on Firm Performance of Technology-based Start-ups, *Asia-Pacific Journal of Business Venturing and Entrepreneurship*, 7(1), 7-18.
- Lansberg, I.(1988). The succession conspiracy, *Family Business Review*, 1(2), 119-143.
- Lansberg, I. & Astrachan, J. H.(1994). Influence of Family Relationships on Succession Planning and Training:

- The Importance of Mediating Factors, *Family Business Review*, 7(1), 39-59.
- Meier, K. J. & O'Toole, L. J.(2013). Subjective organizational performance and measurement error: Common source bias and spurious relationships, *Journal of Public Administration Research and Theory*, 23(2), 429-456.
- Morris, M. H., Williams, R. O., Allen, J. A., & Avila, R. A.(1997). Correlates of success in family business transitions, *Journal of business venturing*, 12(5), 385-401.
- Nunnally, J. C.(1978). *Psychometric theory*(2nd ed), McGraw-Hill, New York.
- Pfeffer, J.(1998). *The Human Equation: Building Profits by Putting People First*, Boston, MA: Harvard Business School Press.
- Reid, R. S. & Adams, J. S.(2001). Human Resource Management. A Survey of Practices within Family and Non-Family Firms, *Journal of European Industrial Training*, 25(6), 310-320.
- Schwendinger, B.(2011). A Methodology to Explore Family Business Succession, *International Journal of Management Cases*, 13(4), 34-41.
- Sharma, P., Chua, J. H., & Chrisman, J. J.(2000). Perceptions about the extent of succession planning in Canadian family firms, *Canadian Journal of Administrative Sciences*, 17(3), 233-244.
- Sharma, P., Chrisman, J. J., Pablo, A. L. & Chua, J. H.(2001). Determinants of Initial Satisfaction with the Succession Process in Family Firms: A Conceptual Model, *Entrepreneurship: Theory and Practice*, 25(3), 17-35.
- Sharma, P., Chrisman, J. J. a& Chu, J. H.(2003). Succession Planning as Planned Behavior: Some Empirical Results, *Family Business Review*, 16(1), 1-14.
- Shen, W. & Cannella, Jr. A. A.(2002). Revisiting the performance consequences of CEO succession: The impact of successor type post-succession senior executive turnover and departing CEO tenure, *Academy of Management Journal*, 45(4), 717-733.
- Snell, S. A. & Dean, Jr. J. W.(1992). Integrated Manufacturing and Human Resource Management: A Human Capital Perspective, *Academy of Management Journal*, 35(3), 467-504.
- Stavrou, E.(1999). Succession in family businesses: Exploring the effects of demographic factors on offspring intentions to join and take over the business, *Journal of Small Business Management*, 37(3), 43-61.
- Storey, J.(2001). Human resource management today: an assessment, in Storey, J. (ed.), *Human Resource Management: A Critical Text*, London: Thomson Learning.
- Tushman, M. L. & Rosenkopf, L.(1996). Executive succession, strategic reorientation and performance growth: A Longitudinal study in the U.S. Cement industry, *Management Science*, 42(7), 939-953.
- Venter, E., Boshoff, C. & Maas, G.(2005). The Influence of Successor-Related Factors on the Succession Process in Small and Medium-Sized Family Businesses, *Family Business Review*, 18(4), 283-303.
- Villalonga, B. & Amit, R.(2006). How Do Family Ownership, Control, and Management Affect Firm Value?, *Journal of Financial Economics*, 80(2), 385-417.
- Wagner, E. D.(2003). Where learning thrives across the enterprise, *Learning and Training Innovations*, 4(5), 20-24.
- Weon, J. H.(2007). A Study on the Influence of Human Resource Management Practices of Venture Firms on Performance, *The Journal of Business and Venturing*, 2(3), 61-102.
- Yan, J. & Sorenson, R.(2006). The effect of confucian values on succession in family business, *Family Business Review*, 19(3), 235-250.
- Yao, C. P. A.(1996). *An examination of the relationship between organization and employee training variables with organizational performance in high-technology firms*, Doctoral dissertation, Pennsylvania State University.
- Youndt, M. A., Snell, S. A., Dean, Jr. J. W. & Lepak, D. P.(1996). Human Resource Management, Manufacturing Strategy, and Firm Performance, *The Academy of Management Journal*, 39(4), 836-866.

## 가족기업의 승계프로세스 특성이 조직성과에 미치는 영향: 전략적 인적자원관리의 조절효과

우창수(아주대학교 경영학박사수료)\*

박호환(아주대학교 경영학과 교수)\*\*

최명원(아주대학교 경영학과 조교수)\*\*\*

오진욱(아주대학교 경영학과 박사과정)\*\*\*\*

장명학(아주대학교 경영학과 박사과정)\*\*\*\*\*

### 국문요약

본 연구는 가족기업의 중요 이해관계자 중 하나인 종업원의 관점에서 승계프로세스 특성이 조직성과에 미치는 영향과 이 관계에서 전략적 인적자원관리 관행의 조절효과를 살펴보았다. 이를 위해 승계가 진행 중이거나 완료된 중소기업의 후계자와 인사담당자를 대상으로 설문조사 실시하였고, 총 124부를 실증분석에 활용하여 다음과 같은 분석결과를 도출하였다. 첫째, 승계프로세스 특성 중 후계자의 승계준비 수준은 조직성과에 유의미한 정(+)의 영향을 미치는 것으로 나타났다. 그러나 승계 후 승계자의 역할 정의, 승계 이해관계자 참여수준, 승계자의 퇴임수용 의지는 조직성과에 유의미한 영향을 미치지 않았다. 둘째, 전략적 인적자원관리 관행들 중에서 채용관리가 잘 이루어질수록 이해관계자 참여수준, 승계자의 퇴임수용 의지가 조직성과에 미치는 영향이 더 커지는 것으로 나타났다. 결국 가족기업의 성공적인 승계를 위해서는 다양한 승계 프로세스 특성 중 무엇보다 후계자의 승계를 위한 체계적인 준비프로그램이 필요하다는 것을 확인하였다. 또한 다양한 전략적 인적자원관리 관행 요인 중 우수한 인재를 확보·유지할 수 있는 채용관리와 후계자의 승계가 함께 작용하여 조직의 성공을 이끌 수 있다는 점을 시사해주고 있다.

핵심주제어: 가족기업, 승계프로세스, 전략적 인적자원관리, 조직성과

\* 제1저자, 아주대학교 경영학박사 수료, cswoo13@gmail.com  
\*\* 교신저자, 아주대학교 경영학과 교수, hhprk@ajou.ac.kr  
\*\*\* 공동저자, 아주대학교 경영학과 조교수, mwchoi@ajou.ac.kr  
\*\*\*\* 공동저자, 아주대학교 경영학과 박사과정, cls@ajou.ac.kr  
\*\*\*\*\* 공동저자, 아주대학교 경영학과 박사과정, qhtmaudgkr@ajou.ac.kr