

Succession in Family Business: A Case study of Chowkaset 2003 Part., Ltd

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บทคัดย่อ

กรณีศึกษาครั้งนี้ ดำเนินการค้นหาคณะกรรมการ และลักษณะเกี่ยวกับการสืบทอดตำแหน่งของธุรกิจครอบครัว เพื่อหาคำตอบว่าการสืบทอดตำแหน่งของคนในครอบครัวจากรุ่นหนึ่งสู่อีกรุ่นหนึ่งให้ประสบความสำเร็จนั้น มีวิธีการทำและมีลักษณะอย่างไร โดยศึกษาธุรกิจครอบครัวซึ่งประกอบกิจการฟาร์มไก่แห่งหนึ่ง ในประเทศไทย ผลการศึกษาพบว่า มีกระบวนการสืบทอดตำแหน่งเริ่มจาก การตัดสินใจเลือกผู้สืบทอด เตรียมความพร้อมด้านความรู้และทักษะในการบริหาร โดยในระหว่างช่วงถ่ายโอนอำนาจ มีการระบุขอบเขตของอำนาจการบริหารอย่างชัดเจน โดยผู้บริหารเดิมคอยให้คำปรึกษา และยังทำหน้าที่เหมือนผู้บริหารเงามีส่วนร่วมในการตัดสินใจทางธุรกิจในเรื่องสำคัญที่มีผลกระทบต่อกิจการ ผลที่ได้จากกรณีศึกษาช่วยให้เห็นถึงความเกี่ยวข้องของการเตรียมคนอย่างมีระบบ ส่งผลต่อความยั่งยืนของธุรกิจครอบครัว ผู้บริหารธุรกิจครอบครัวรายอื่นสามารถนำแนวทางนี้ไปประยุกต์ใช้ในการพัฒนาธุรกิจครอบครัวอยู่รอดได้ยาวนานได้มากขึ้น

คำสำคัญ : การสืบทอดตำแหน่ง ธุรกิจครอบครัว

Abstract

The main purpose of this case study was to investigate succession characteristics and process in a family business with effective transition. Understanding this challenging transition, more insights into methods for successful transitions and for sustainable business after the succession. The selected case study was a poultry farm in Thailand. The results of the study revealed that the succession process in this family business began at the selection of the potential successor who had been trained for management knowledge and skills. During the transition process, the successor was empowered by allocating clear authority on management. The previous executive played roles as a consultant and shadow executive, who took part in decision making on important issues that may impact the business. The findings of this study clearly show that systematic succession planning impacts sustainable family business. This findings will be useful to other family businesses by adopting this succession planning in their family businesses for survival and sustainable businesses.

Keywords : Succession, Family Business

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Introduction

Family-business succession (FBS) is very challenging for family businesses (Bozer *et al.*, 2017). Succession shares similar meanings to replacement (Zajec, 1990) which implies the transformation of business ownership. Succession is the transfer of actions and events, and the organization's management approaches, which involves both mental and behavioral factors, under the new leadership (Miller *et al.*, 2004; Griffeth, Allen and Barrett, 2006; Cambell *et al.*, 2007; Bozer *et al.*, 2017). Major issues related to succession include issues such as who should be the new business owner, when he/she will be selected, what procedures must be prepared and taken, and who should take care of the business during the succession process, as well as how the potential successor's ability will be improved (Joshi, 2017).

Most, if not all, family businesses passed down from previous generations aim for stable and sustainable businesses and good family relationships (Mokhber *et al.*, 2017). However, in reality, only 10-15 percent of family businesses survives the transition to the third generation (Miller and Steire, 2004; Bozer *et al.*, 2017). Mainly, according to Matthew *et al.* (1999), forty percent of family businesses did not have succession planning. Succession planning is a vital tool to identify factors, which involve preparing, selecting, and improving new successors who will lead the business to attain the firm's goals. Without succession planning, the family business may not survive the transition as it has been expected.

Succession planning receive a lot of interest in organizational studies, especially family business contexts. This is due to the fact that the performance of family businesses impacts the economic system (Astrachan and Shankar, 2003; Sharma, 2004; Williams, Jr., 2017), in particular in Asia due to the increasing number of family businesses entering the market (Bozer *et al.*, 2017). In addition, succession planning is also important, not only to assist the selection of appropriate successors, it is also vital to help create confidence and effective transitions to later generations (Bozer *et al.*, 2017).

Due to the important role of succession, this study, therefore, aims to investigate methods and characteristics of successful succession from one generation to another generation, which contribute to the successor's success in achieving the business goals. It is expected that the findings of this study will shed more light onto the relationship between systematic human resources management and sustainable businesses. Also, business executives can apply the findings of this study into their business management for last-long and sustainable businesses.

Method

The data comes through a triangulation, document review, interviews with successor and an interpretive mode of assessment of researchers. This study adopted a case study approach by using Chowkaset 2003 Part., Ltd as a case study. This poultry farm family business was founded in 1983. Since this business has achieved high performances and has been successfully transferred to the next generation, it was selected as a case for this study. The data were collected through in-depth interviews with the current executive. The questions for the interview was adopted from Brockhaus (2004); Chua, Chrisman and Sharma (2003); Griffeth, Allen and Barrett (2006); and Bozer *et al.*, 2017. The interview questions include three major sections, as follows.

1. Pre-entry succession process

This section aims to elicit the information about company history and business structure, by focusing on the following points:

1.1 Family factors including history of foundation, management structure, interactional behavior (e.g., dynamics, family culture, values, relationships, needs, and desires), conflicts in family, conflicts between the family and main employees, benchmarking, rapacity, and management obligations as a successor.

1.2 Business factors including interests in business and formal business practices.

1.3 Personal factors including desires, goals, personal skills and ability, honesty, enthusiasm, successor's attributes, trust in family members, personality, roles in current business, and plan and prescription of successor's quality, namely preparation (how to prepare a successor), selection (how to select a successor), and members (whether or not a family member should be selected as a successor and how).

2 Transition process

The transition process is the transfer of ownership from the previous successor to the new successor, by focusing on the following points.

2.1 Ownership involving empowerment and whether family members are given power of control

2.2 Transition of Leadership

2.3 Role of family members and previous leaders

2.4 Changing situations

2.5 Parent-successor relations

2.6 Details of the business itself

2.7 Family relationships

- 2.8 Attitudes of the executive's members
- 2.9 Training for potential successors
- 2.10 Implementation to fulfill the missions under the new structure
- 2.11 Ability to implement strategies, education, technology skills, general management skills, and financial management skills.

3. Succession outcome

The succession outcome is determined based on family business performances, or profitability. Successors must prove that their ability and skills are at level 2. This is used as self-assessment for the successors to continue to be considered as successors or to discontinue. Major points include incomes, profits, market shares, customer satisfaction, family relations, share holders' satisfaction on successor planning and procedures, and so on.

Findings

The following are major findings regarding to factors contributing to successful transition in Chowkaset 2003 Part., Ltd.

1. Pre-entry succession process

1.1 Family factor

Chowkaset 2003 Part., Ltd was founded as a poultry farm in 1983 by a founder, a previous employee of Charoen Pokphand Group. He decided to quit the job to seek new business opportunities and started his own business, which was a meat-producing chicken farm, in Roi-Et province in 1983 with two partners, which later became known as Chowkaset 2003 Part., Ltd.

They started their business with raising broilers. When the broilers gained appropriate weights, they were sold to merchants in the market. The initial phase of the business was very challenging because the owners had to live in grow out houses with chickens since they were not financial ready to build their own houses at that time. Moreover, their business performances were quite low because there were rivals who were well established in the market. The owners launched different strategies to win customers by giving better services such as helping with killing and defeathering chicken. With these strategies, the business performances improved and continued to grow.

Later, the meat-producing chicken market grew up dramatically, especially in the export market of meat-producing chicken to overseas. However, due to limited investment capital, the owners were not able to export chickens themselves. They then had

to make a farming contract with one export company located in Ubonratchathani province. At that time, the profitability was high, so they decided to build more grow out houses. Also, they invited a number of chicken farmers to sign farming contracts with their company. The company business grew rapidly, both in local sales (e.g., in Roi-Et, Mahasarakham and Kalasin provinces) and contract farming. They later decided to sign a farming contract with a new company from Saraburi province and terminate the contract with the previous company because this company violated some contract items.

In 2003, due to the disagreement among they partners, they decided to closed the business. The founder then decided to open a new company, which he named “Chowkaset 2003 Part., Ltd” to run a similar business, a chicken farm. In 2011, the chicken market was sluggish due to the outbreaks of the avian flu epidemic between 2004 and 2005. Also, the contract farming did not give good returns as it was. The founder decided to terminate all farm contracts and continued the business with only raising chicken and selling chicken meat in local areas. Since many grow out houses were left unused, the owner and his team brainstormed on how to start a new project by making use of existing grow out houses. They finally decided to start raising 20,000 egg-producing chickens, or layers, and planned to sell them to other companies as agreed under the signed contract. Unfortunately, due to the sluggish economy, the customers broke the contract and refused to buy the layers. As such, Chowkaset 2003 Part., Ltd had to keep all 20,000 layers and decided to enter the egg market in Roi-Et, while they had no experience in this area at all.

At the beginning of 2012, they could hardly sell their egg products because of the contracting economy in the industrial sector. They had to sell their products at very low prices even though they had to suffer a loss in profits. Mid 2012, the situation improved, and the company adopted strategies that made their products unique such as cleaning eggshells before delivering to the market, flexible stocking leading to fresher and higher quality eggs, and feeding chickens with special meals resulting in more reddish yolks. Due to these strategies, the company’s products were popular among customers who also played an important role to introduce the products to other customers. The number of produced eggs did not meet the increasing demands of the customers. Therefore, they decided to build more grow out houses and to improve the old ones for more effective production. At the time when the study was conducted, the company had about 80,000 – 100,000 layers and sold approximately 12,000 broilers per week.

1.2 Management structure

Chowkaset 2003 Part., Ltd adopted a flat organization for flexible decisions. There were 70 operational staff under the supervision of four department managers, three of whom were not family members; the executive also supervised the egg department (see Figure 1 for the management structure).

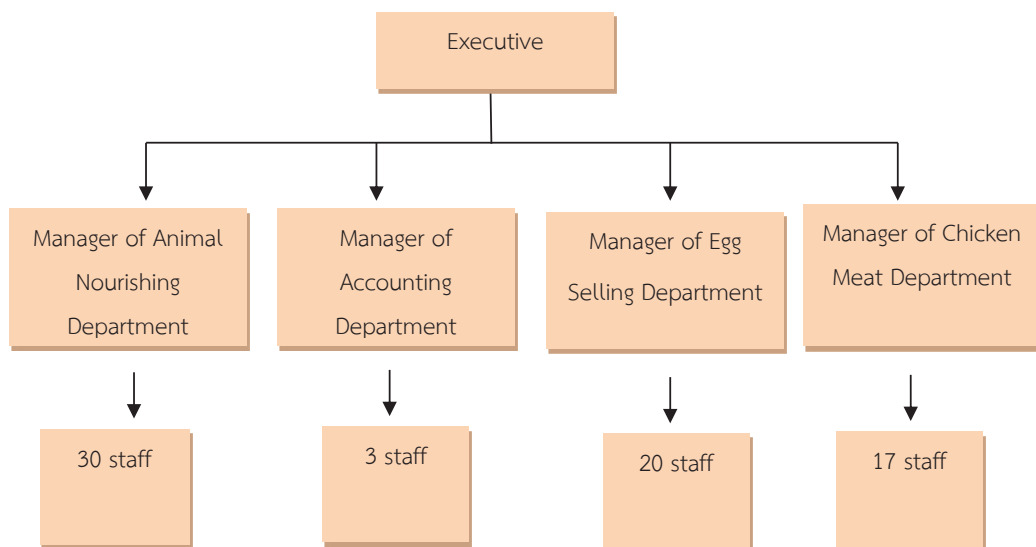


Figure 1 Organizational structure of Chowkaset 2003 Part., Ltd

1.3 Organizational interaction

The organizational culture practiced in Chowkaset 2003 Part., Ltd was business family culture, through which operational staff could meet and consult with the executive at all time. Each week, a meeting was held to gather problems in the organization. Staff's opinions were valued and taken seriously. Voting was often used when decision making was needed.

In this firm, no family member conflicts and conflicts between family members and main staff were found. This was reported by the executive, and in his own words,

“No rapacity is found in this organization because currently there is only one executive, no business partners who are family members.”

1.4 Succession planning and Prescription of Successor's Quality

The previous executive had three sons, and he decided to select a family member to be the next executive since it was a family business and his sons were willing to take part in the family business. The set quality of the competent successor included diligence, careful spending, honest, patience, business acumen, and business skills (i.e., selling and accounting). All these qualities were found in the first son who was later selected to be the next executive. However, planning was also made for the second and the third sons for their important roles in the company. Currently, both are being trained to be veterinarians and were permitted to have job training in other workplaces to gain experiences that can be applied in the family company. The current executive also valued the same family values and transferred management knowledge to both siblings to prepare them for the manager positions of broiler and layer nourishing departments. Both of them would start working after their graduation, and it was the time when the current managers would retire.

1.5 Business Methods and Market Factors

The executive set a goal for the company as the market leader in egg products in Roi-Et province, and at the same time to maintain its market share in the chicken meat market. Moreover, he seeks more business opportunities to add value to his current business. The main emphases of the company were to produce the best quality products and to create differences among the players in the market. For example, this company offered two types of eggs for customer selection, which were regular eggs and premium ones. However, it was very challenging for this type of consumer goods. In addition, the company also focused more on the flexibility in selling and customer services. Decisions must be made at a timely manner.

The livestock industry was aggressively competitive. The product yield of the market was controlled by only a national large company. Oversupplying was quite a common phenomenon, resulting in low-price products. A number of small farmers had to go out of business due to more expensive manufacturing costs. Therefore, Chowkaset 2003 Part., Ltd had to focus on low competitive markets such as Blue Ocean and Niche Market to lower the customer's bargaining power. For example, the company attempted to collect orders from companies located in close areas so that they could manage and lower logistic costs. Also, they focused on providing the customer with better-quality products compared to those of the rivals. Customers had been satisfied with the product quality and were willing to pay for the company's products even though the prices were higher.

However, future opportunities for the business seemed to be clouded by the livestock industry's red ocean strategies. If the government was not able to control the production yield of large companies, the competition in this market would still be very aggressive. Another factor involves customers' changing behavior. They tended to buy goods at modern trade stores. However, small entrepreneurs' access to this selling channel was limited since most of the modern trade stores had their own house brands.

Chowkaset 2003 Part., Ltd, however, attempted, to seek for new opportunities by adding values to the current business such as producing biogas to generate electricity, which later was used to produce ice, organic fertilizer pellets, and so on.

2. Transition process

The transition process of this company from the previous executive (the father) to the current one (the first son) was quite smooth and efficient. After retirement, the previous executive still played roles in the business. Family members were positioned as planned. The successor had authority to make decisions on general management and making purchases and to exclusively control operational staff. However, there must be meetings and discussions when it came to decision making on investment in new projects.

The relation between the new and the old executives (i.e., parent-successor relation) was strong. Similar to the previous executive, the current one was determined to achieve the set business goals. He had witnessed the success of the previous executive who became very successful even though he was from a poor family and did not much financial support for investment. With this inspiration, the successor put all of his effort to extend and keep the business.

During the transition period, the competent successor was trained intensively to meet the family head's expectations. He was regularly given on the job trainings such as learning in grow out houses, selling, accounting, and coaching on trends and mega trends of future business.

During the implantation period, the successor was appointed the executive in 2012. The business's performances were good and could generate incomes to the company. The successor had implemented trained market strategies and job training experiences to develop the organization. Moreover, he received more training on human resources and financial management during the succession planning period.

3. Results of succession process

The competent successor became the executive and egg-selling manager for the company since 2012. However, the previous executive (i.e., the father) still played roles as

a shadow executive. This type of management caused no problem to the company. The company still generated high incomes and benefits each year due to customers' positive experiences with the products. The company increased its productivity to meet with increasing market share in Roi-Et, up from 10 percent to 30 percent. Also, its customer bases were expanded to neighboring provinces such as Yasothorn, Mahasarakham, and so on. These performances have proved that the successor was efficiently selected and appropriate to the appointed position.

Conclusion

This case study aims at investigating succession characteristics and process in a family business with effective transition. It is expected that findings will provide insight onto methods for successful transitions and for sustainable business after the succession. Chowkaset 2003 Part., Ltd, which is a poultry farm and has been established since 1983, was used as a case study in this research. The results of the study revealed that the succession in this family business comprised of three stages: pre-entry succession process, transition process, and succession outcome.

1. Pre-entry succession process. The previous executive of Chowkaset 2003 Part., Ltd, who was also the family head, retired from his own business and needed a competent successor to continue the business. The quality of the successor set by the previous executive included patience, diligence, careful spending, honest, and business acumen. The most qualified successor was the first son, who was later selected and appointed the next executive. The successful successor was also trained and educated in business management. With his qualities, knowledge, and experience, he could successfully run the business.

2. Transition process. The successor was in charge of general management, controlling operational staff, and decision making on purchasing goods, except investment on new projects. Importantly, the previous executive, who was also the family head, still took part in making important decisions.

3. Succession outcomes. The family business performances were satisfactory. The company gained higher market shares and increasing profits each year. Moreover, they still maintained good family relationships. They had similar views on the business goals. The successor was determined to achieve the company's missions and goals. Since the transition process, he had successfully proved himself that he possessed sufficient skills and knowledge to efficiently run the business and to achieve the business performances expected by the previous executive.

Practical implication

This case study shed more light onto family businesses regarding the importance of succession process. Succession must be well planned. Important quality of the competent successor must be set. In addition, the quality of the potential successor must be evaluated and improved to increase his/her quality before the actual appointment.

This case study shows that the father, even though retired, still played a role as a shadow executive. However, this shadow role causes no problem to the business because this is a common characteristic of a family business, which is different from other business types. Conversely, the high-experienced one is likely to support the successor's management in order that the business can survive the transition. It is important that empowerment must be practiced. In other words, authority must be given to the successor so that he/she will gain more management skills, which in turn will help increase the sustainability of the family business.

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