FAMILY BUSINESS SUCCESSION ISSUES IN TRANSITION ECONOMIES: CONTRASTING MACEDONIA AND KOSOVO

1. INTRODUCTION

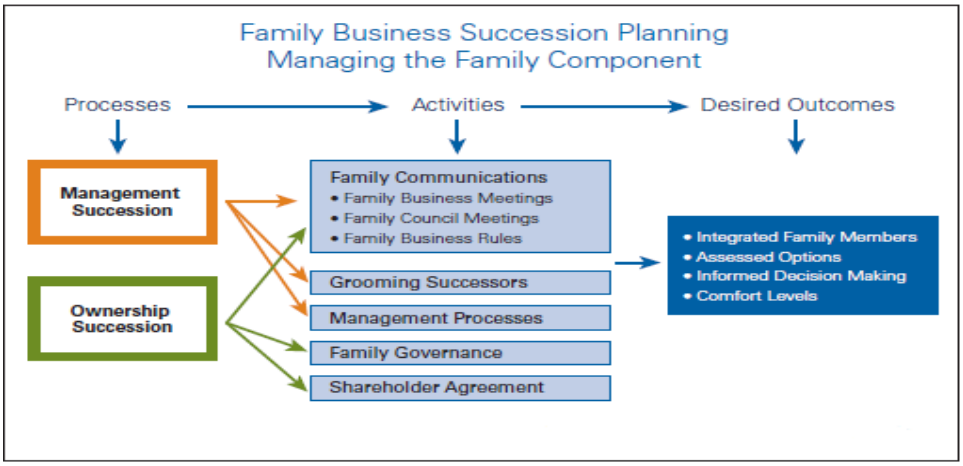
The purpose of this article is to analyze the approaches of family business succession in Macedonia and Kosovo. One of the oldest forms of business organizations can be recognized as a family business. Their role and importance has had a significant impact in the economic development of the countries. A family business can be classified as a small shop operating down the road up to the large conglomerates operating in different industries in the global market. Our main focus is on the succession of the family business which seen as the biggest challenge faced by companies in the long run. One of the most challenging struggles that family firms face is succession; which can be perceived as lack of interested or competent successors or due to the fact that the order generation resists to let it go. The major contribution of this study is to highlight the importance of planning the process of family business succession in Kosovo and Macedonia in a region where this concept is not very well known and practiced.

2. FAMILY BUSINESS SUCCESSION: MODELS AND SPECIFICS

Family businesses symbolize employment opportunities since they are an important source for generating jobs generation after generation in most of the developing countries. Succession in general term can be defined as a replacement or transfer of the management and control of the business. According to Handler (1990) the continuity process is described as a mutual agreement of the role between members of the current and succeeding generations. Walsh (2011) analyzed the elements of succession in family firms (Figure 1). according to him effective integration and management of the family component will have decisive effect on the success of the succession process. In the figure it can be clearly seen the two processes of succession one

being the ‘management’ succession process and the other one being the ‘ownership’ succession process. There are also included various activities for each of the processes that will lead to the desired outcomes.

Figure 1. Elements of Succession in Family Firms



(Source: Walsh 2011, p15)

When evaluating a succession process, it is important to be able to make the difference between the *quality* of the experience (referring to the reflection of how the individual family members experience the process) and the *effectiveness* of the succession (referring to how others judge the outcome of the transition), (Handler, 1990, Kets de Vries, 1993).

2.1 SUCCESSION MODELS AND THEIR CHARACTERISTICS

To have a hassle free transition process Kanef (2011) suggests that the transition process should be prepared in advance and all the situational factors together will all parties involved should be taken into account. He recommends that family business succession process should be planned as planning a journey by answering the following three questions: *What are you destinations?; What is your schedule?; Who is the leader?*. A Succession model represents a frame of different faces interrelated with one another. In the vast literature there are several

models signified from different authors. In our particular interest we have chosen to present the model developed by Scarborough (2012), consisting five stages presented in Table 1.

Table 1. The Succession Process in Family Businesses

Early involvement with the business in routine tasks (while very young and in high school.	Rotation among various assignments on summer/holiday vacation time (while in college)	Entry-level position with planned job rotations, regular performance evaluations and mentoring by both insiders and outsiders	Greater responsibility	General manager
			Department or functional manager; service on advisory board	Transition phase; membership on the board
←			Decision-making responsibility	→
Stage I	**Stage II**	**Stage III**	**Stage IV**	**Stage V**

Source: Scarborough, 2012, p.675

From the table above it can be noticed that the succession process start at an early age (high school) and moving gradually toward a greater level of involvement and responsibility ending in Stage V with a general manager position. However, the process of succession it is not always a smooth one because it is very sensitive and it involves family ties. According to Venter (2002), a family business to remain a family business each generation must be replaced with the next generation a process that is complex a usually can break family relationship and cause business destructions. Some of the issues that might arise as a result of the succession process might be the business founders' resistance to retire, difficulties in choosing the CEO, not being prepared for the succession process and different management approaches to business.

3. FAMILY BUSINESS SUCCESSION IN KOSOVO AND MACEDONIA

The biggest challenge of succession that entrepreneurs face is the transition process is change of ownership, as it is shown many family businesses fail to pass in the third generation. In this paper we will try to emphasize issues related to family business in Kosovo and Macedonia, understanding how much family business owners are aware of the succession issues, whether they have a succession plan and how they are planning it. Mainly from the research it can be noticed that in both countries the succession process is not planned, primarily because they are not aware of the existence of such practices.

Research Methodology

The research design is survey research with a distribution of questionnaires questionnaires. This research was conducted by randomly distributing questionnaires (the questionnaire consisted of 20 questions) among family business owners (112 questionnaires in Macedonia and 100 out of 120 in Kosovo). The survey was conducted between March – July 2012.

Republic of Macedonia is located in South East Europe – Balkan Peninsula and it is relatively small country with a population of 2.5 million. The Republic of Kosovo is the neighboring country of Macedonia relatively same size as Macedonia with a population size of 1.8 million. Family businesses in both countries are considered an important support to the economic development and their growth is very crucial for economic productivity.

Results from the Questionnaires

In both countries it is noticed that many business owners fear that if they leave their business, the business might fail, for them it is too difficult to come to terms with the fact that someone can replace them and do the job with great success. The summary of responses collected by the questionnaire and respondents are arranged in table due the word limit.

Table 2. Summary of Responses From the Questionnaire

Republic of Macedonia	Republic of Kosovo
a) Business sector. 71 percent -trade sector, 8 percent - services, 11 percent - construction sector, 8 percent - manufacturing sector and 2 percent - other sectors.	*a) Business sector*. 65 percent - trade sector, 11 percent - services, 7 percent - construction sector, 14 percent - manufacturing sector and 3 percent - other sectors.
c*) Age of the business founder*. 23 percent -under the age of 40 years; 31 percent - between 40 and 50 years; 29 percent -between 51-60 years and 17percent -over 60 years.	*c) Age of the business founder*. 20 percent -under the age of 40 years; 25 percent - between 40 and 50 years; 32 percent - between 51–60 years and 23 percent were over 60 years.
d) Age of the business. 33 percent of businesses are under the age of 10 years; 29 percent - between - 10 and 15 years. In the 15-20 year age range were 25percent of the family businesses. Only 13percent of businesses were over 20 years of age.	*d) Age of the business*. Regarding the age of the business (number of years in business), most of the respondents stated that their business was in a very young age, which means that it is still in the first or second generation and none of the respondents stated that their business was in the third generation, which is quite disturbing.
e) The level of education of the founders. 14 percent are with primary school, 48percent of these founders are with secondary school, and 35percent are with faculty. Only 3percent of business founders are with masters or PhD	*e) The level of education of the founders*. 10 percent are with primary school, 35 percent of these founders are with secondary school, and 50 percent are with faculty. Only 5 percent of business founders are with masters or Ph.D
i) Planning of the succession issue. 29 percent of family businesses do not have a plan regarding succession. Founders who have planned succession constitute 23percent of the businesses. Those who think about the issue of succession constitute 21percent of businesses. Of the businesses, 22percent of the founders responded that for a time they are not planning anything.	*i) Planning of the succession issue*. 36 percent of family businesses do not have a plan regarding the issue of succession. Founders who have planned succession constitute 18 percent of the businesses. Those who think about succession constitute 26 percent of businesses. 20 percent of the founders responded that for a time they are not planning anything.
j) The child that will inherit the business. 41percent shall transfer business leadership to their first child, Those who have declared that they will transfer their business leadership to the second child make up 22percent of businesses; however, most of those indicated that the gender of the first child was "female". The founders that claim that they will transfer the business leadership to their third child constitute 5percent of businesses. A large number of founders wish to transfer business leadership to all the children at once, and they make up 25percent of the businesses, Of the businesses 7percent of the founders stated that their business leadership could be transferred to someone else because they do not have children.	*j) The child that will inherit the business.* 35percent shall transfer business leadership to their first child, Those who have declared that they will transfer their business leadership to the second child make up 27percent of businesses; however, most of those indicated that the gender of the first child was "female". The founders that claim that they will transfer the business leadership to their third child constitute 5percent of businesses. A large number of founders wish to transfer business leadership to all the children at once, and they make up 27percent of the businesses, Of the businesses 6percent of the founders stated that their business leadership could be transferred to someone else because they do not have children.
m) The ideal age for the founder to transfer the business management. Only 9percent stating that the ideal age to inherit business management to successor is under the age of 50. A slightly larger number of them (31percent) think that the ideal age to transfer the management of the business is between 50 and 55 years of age. The largest number (46percent) of founders of businesses, think that it is best to transfer the business management to the successor when they are between 55 and 60 years of age and only 14percent after 60 years of age.	*m) The ideal age for the founder to transfer the business management*. Only 8percent stating that the ideal age to inherit business management to successor is under the age of 50. A slightly larger number of them (29percent) think that the ideal age to transfer the management of the business is between 50 and 55 years of age. The largest number (41percent) of founders of businesses, think that it is best to transfer the business management to the successor when they are between 55 and 60 years of age and only 22percent after 60 years of age.
n) Length of "owner-successor" joint management. 31percent of the founders stated that after inheriting the management of the business, the successor should work together with the founder to manage the business for at	*n) Length of "owner-successor" joint management.* 36percent of the founders stated that after inheriting the management of the business, the successor should work together with the founder to manage the business for at

least two years. Founders at the rate of 25percent believed that they should manage the first 5 years together with the successor. 18percent think to manage the business along with successor to death. But there are also founders who think they will leave immediately after they transfer their business to the heir.	least two years. Founders at the rate of 30percent believed that they should manage the first 5 years together with the successor. 10percent think to manage the business along with successor to death. But there are also founders who think they will leave immediately after they transfer their business to the heir.
p) The willingness of the children to manage the business in the future. From the survey, the data showed that 41percent of the business founders think their heir wants to manage the businesses surveyed. Those thinking that their heir does not want to manage the business but that there was no other choice accounted for 10percent of the respondents. Some respondents (31percent) felt that their successor will work elsewhere and then return to the family business along with the experience it has gained which will contribute to the success of the enterprise. 18percent do not have information on what their descendants prefer to do in terms of taking over the family business.	*p) The willingness of the children to manage the business in the future.* From the survey, the data showed that 38percent of the business founders think their heir wants to manage the businesses surveyed. Those thinking that their heir does not want to manage the business but that there was no other choice accounted for 12percent of the respondents. Some respondents (26percent) felt that their successor will work elsewhere and then return to the family business along with the experience it has gained which will contribute to the success of the enterprise. 24percent do not have information on what their descendants prefer to do in terms of taking over the family business.
q) Succession process and conflicts. Business founders (29percent) felt that the process of succession in family business will pass without dispute. 34percent of respondents believed that the process of succession in their business will pass with petty disputes. But jealousy and expectations of children can lead to major disputes according to the opinion of 23percent of the founders of family businesses. 14percent think and expect that the process of succession in their business will pass with very large odds.	q) *Succession process and conflicts*. Business founders (34percent) felt that the process of succession in family business will pass without dispute. 38percent of respondents believed that the process of succession in their business will pass with petty disputes. But jealousy and expectations of children can lead to major disputes according to the opinion of 18percent of the founders of family businesses. 10percent think and expect that the process of succession in their business will pass with very large odds.

4. CONCLUSION

As discussed earlier, succession can be defined as the process of leadership transfer from one generation to the next generation, for this reason it is important for the owner to start planning the succession process on time and act as a mentor in passing the knowledge, decision making and experience to the successors so they can be prepared to run the business successfully. In order for the succession process to be smooth and avoid problems, it is necessary to create a transparent process and to establish some criteria for those who want to get involved in a family business. As stated earlier on in both countries it is noticed that many business owners fear that if they leave their business, the business might fail, for them it is too difficult to come to terms with the fact that someone can replace them and do the job with great success. Also it was noted in

both cases that most of the respondents were not aware of the succession process and needed clarification of what it mean, since mainly both societies tend to leave the business to the sun or daughter once they are not able to fulfill the business duties. In most of the survey questions the results among the two countries had no significant differences among the responses which makes them quite similar in terms of running the family business and planning for the succession process.

References *(here are listed only those cited in this expanded abstract)*

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