

Received: Mar. 13, 2018 • Revised: Dec. 27, 2018 • Accepted: Apr. 24, 2019

The Effect of Family Business Succession Preparation and Implementation on Post Succession Performance: Evidence from Steel Industry in Thailand

ผลของการเตรียมความพร้อมและการนำไปใช้งานสำหรับการสืบทอด
ธุรกิจของครอบครัวต่อประสิทธิภาพการสืบทอดตำแหน่ง: หลักฐาน
จากอุตสาหกรรมเหล็กในประเทศไทย

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Abstract

This research paper examined the important factors affecting the succession preparation, the implementation plan, and post-succession performance of the family business in steel industry in Thailand. The important factors were perceived potential, perceived commitment, and perceived capability of the successor. The objective of the research was to examine the relationship between the three factors, succession preparation, implementation, and the post-succession performance of the family-owned steel firms in Thailand. A total of 169 questionnaires were collected from the top and middle managers which had gone through a leadership transition from 30 steel firms located in Bangkok, Samutsakorn, or Samutprakarn. These areas have a large number of steel business owners. The results indicated that all three factors had impact on the effectiveness of the succession preparation with perceived capability having the highest impact. The results also showed that the succession preparation, succession implantation, and the post-succession performance were positively related. This research paper provided an insightful outlook on how important the effects of

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succession preparation and implementation were on family-owned steel business in Thailand as succession issues impacted by the global business environment with increased volatility.

Keywords: *Family Firms, Succession Preparation, Successor, Succession Implementation, Post-Succession Performance, Steel Industry*

บทคัดย่อ

บทความวิจัยนี้ศึกษาปัจจัยสำคัญที่มีผลต่อการเตรียมการสืบทอดแผนการดำเนินงานและผลการดำเนินงานหลังการสืบทอดธุรกิจของครอบครัวในอุตสาหกรรมเหล็กในประเทศไทย ปัจจัยสำคัญเหล่านั้นคือ ศักยภาพ ความมุ่งมั่น และความสามารถของผู้สืบทอด การวิจัยครั้งนี้มีวัตถุประสงค์เพื่อศึกษาความสัมพันธ์ระหว่างปัจจัยสามประการคือ การเตรียมการสืบทอดตำแหน่ง การนำไปปฏิบัติ และผลการดำเนินงาน ภายหลังจากการสืบทอดบริษัทหลักของครอบครัว ผู้บริหารระดับกลางและสูง จำนวน 169 คน ได้ผ่านการเปลี่ยนผู้นำในบริษัทหลัก 30 แห่งในกรุงเทพมหานคร สมุทรสาคร หรือสมุทรปราการ พื้นที่เหล่านี้มีเจ้าของธุรกิจหลักจำนวนมาก ผลการวิจัยพบว่าปัจจัยทั้งสามมีผลกระทบต่อประสิทธิภาพของการเตรียมการสืบทอดตำแหน่ง และพบว่าความสามารถของผู้สืบทอดมีผลกระทบสูงสุด ผลการศึกษายังแสดงให้เห็นอีกว่าการเตรียมการสืบทอดตำแหน่ง การนำไปปฏิบัติ และการปฏิบัติงานภายหลังจากการสืบทอด มีความสัมพันธ์เชิงบวก บทความวิจัยนี้ให้มุมมองที่ลึกซึ้งเกี่ยวกับความสำคัญของผลกระทบของการเตรียมการสืบทอดและการนำไปใช้ในธุรกิจหลักของครอบครัวในประเทศไทยเพราะปัญหาการสืบทอดได้รับผลกระทบจากสภาพแวดล้อมทางธุรกิจทั่วโลกที่มีความผันผวนเพิ่มขึ้น

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Introduction

Thailand is currently the world's fifth-largest steel importer. In 2016, Thailand imported approximately 3.7 million metric tons of steel from over 110 countries and territories which represented 5 percent of all steel imported worldwide and the total goods imported into Thailand in 2016. The demand in steel industries in Thailand is experiencing growth as the Thai economy continues to enlarge and infrastructure spending from the Thai government increases. According to the steel industry research from Bank of Ayudhya conducted by Manprasert (2017), the majority of

existing steel industries in Thailand are owned by families from generation to generation. The family firm is highly important as the growth of the economy in Thailand is significantly driven by them. This is because family firms play a vital role in economic progress and development, increasing in entrepreneurial activities and utilizing innovative technology. Family component is what makes them different from non-family business as it can have either positive or negative impact on both ownership and management of the business which is the reason why it requires to be comprehended and managed effectively. The family business in Thailand has a large economic proportion. From the grouping of the top 100 family businesses in Thailand, sales of family businesses accounted for more than one-third of Thailand's GDP. When considering in terms of assets, it is found that the family business has a share of up to 70 percent of total assets. However, there are many management and operation challenges for family firms that threaten their long-term growth and survival. According to past researches on the topic of family firms, the second generation of family ownership had a low rate of survival of approximately 15-30 percent of family firms and the third generation had an even lower rate of survival of roughly 10-15 percent of family firms (Morris, Williams, Allen, and Avila, 1997).

Moreover, Pongpajit (2006) conducted a study on the Stock Exchange of Thailand which collected data from the top 100 family firms on the stock exchange list. The result of the study showed that the number of family firms had gradually reduced from 57 companies to 56 companies in between 2000-2004, and was surprisingly decreased to 38 companies in 2007 according to the total revenue earned of the companies. The main reason for the low survival rate of family firms in Thailand was an ineffective preparation and implementation of family business succession planning. Family business succession is the process of developing and identifying the next generation of family members through transitioning the ownership and the management of the business. The family members play a controlling role in the management and ownership succession. Successful succession planning refers to the family firm which has prepared professionally operational managers in order to guide it into the next generation in the future. The effect of success for the succession implementation will depend on the effective management and integration of the family component. In this situation, the lack of preparation for the succession plan usually occurs which prevents the desired outcomes from being achieved. Therefore, selecting the successor who has both the commitment and capability of managing a family business is the most important factor in

the preparation of a succession plan. More importantly, the effectiveness of succession plan is also determined by the potential of the successor. Due to the selected successor needs to be sensitive to the previous owner's needs, should fully comprehend organizational culture, and should be able to equally make a balance between the successor's capacities and capabilities in both business and family without creating conflict. For these reasons, there must be a departure from the traditional approach to a customized approach to business succession for the family firm. This research aims to focus and explore the three independent variables which are potential of the successor, perceived capability, and perceived commitment of the successor because we believe that there is a relationship between these three factors of family business succession and succession preparation which lead to the effectiveness of succession implementation and post-succession performance.

Objectives of the study

1) To identify the important factors to choose a successor and identify key factors that affect the succession of business in order to achieve long term growth and sustainability of steel family firms in Thailand. This research also explores factors that influence the preparation and implementation of succession planning.

2) The research is organized to present the quantitative method, the results and conclusions, the limitations, suggestion, and future research.

Research Model and Hypotheses

The three important factors of the successor that affect to succession preparation are the potential of the successor, perceived capability, and commitment of successor. Then succession preparation will lead to effective implementation of succession planning and post-succession performance. Therefore, hypotheses include:

According to Levinson (1971), the greatest challenge in the process of succession was the personal attributes of both the incumbent as well as the potential successor. This may involve the successor's willingness to join the family business, having the required skills to run the family firm, as well as the potential successor's preparation level prior to joining the family venture. Therefore:

Hypothesis 1: The potential of the successor will influence succession preparation

According to Sharma, Chrisman, Pablo, and Chua (2001), the commitment of the family towards their business confirms the succession planning program. Moreover, Carlock and Aronoff (2001) claim that a family's commitment to a business is a crucial measure in the business. This implies that family members exhibit commitment in their business by valuing it and uniting to ensure its future. The commitment of the family firm has been repeatedly identified as one of the most desirable qualities in the next generation of family members. Therefore:

Hypothesis 2: Perceived commitment of the successor will influence succession preparation

According to Yukl (2006), skills which effective successor should possess have been identified by a number of researchers, while only a few have been relatively accomplished in estimating the effect of the skills of the successor and their importance to the performance with regards to the establishment. The various qualities considered when selecting a successor include gender, education level, capabilities, managerial, leadership, and entrepreneurial skills. Therefore:

Hypothesis 3: Perceived capability of the successor will influence succession preparation

Morris, Williams, Allen, and Avila (1997) stated that in order to ensure successful transfer of the incumbent's managerial power to a successor, good preparation level is very important. Moreover, many scholars have indicated that there is an association between the potential successor's preparation level and the effectiveness of the implementation of a succession plan. Therefore:

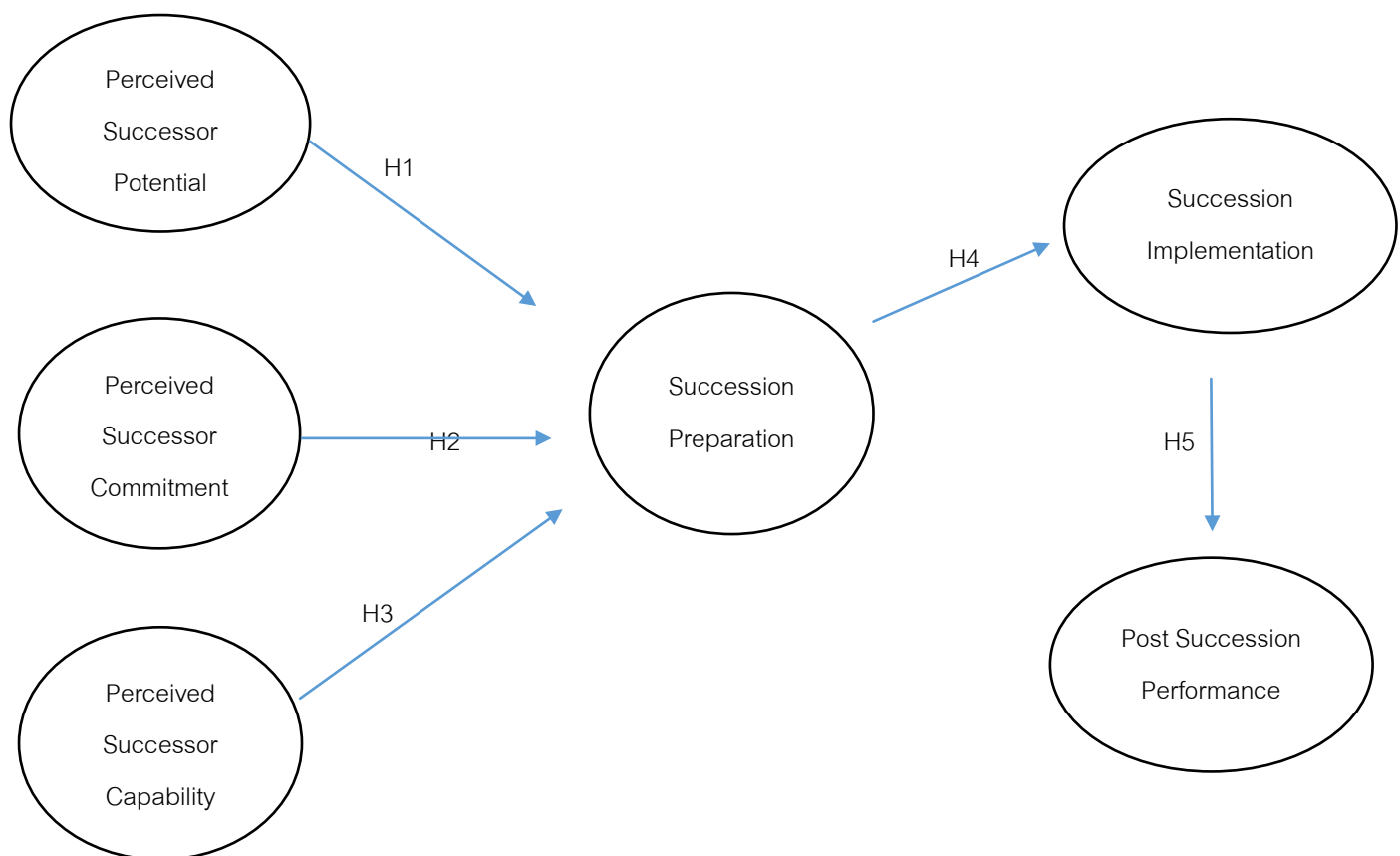
Hypothesis 4: Succession preparation has an impact on the implementation of succession plan

According to Buang, Ganefri, and Sidek, (2013), planning and control of the succession implementation did not have a significant effect on the post-succession outcomes. According to

Pestel (2016), the management succession process gives the next-generation managers the chance to work together and gain the necessary experience in handling different aspects of the family firm. Succession implementation involves a lengthy procedure formulated to match the organizational mission and goals.

Hypothesis 5: Implementation of succession plan has an impact on post succession performance

Conceptual Framework



Research Methodology

This part describes the research design and study area, sampling size and research instruments, as well as data analysis.

Design

The research uses quantitative surveys by using the Structural Equation Model (SEM) in order to examine the level of impact on the factors which lead to the effectiveness of succession preparation and implementation of a family firm. The benefits of using SEM method is the analysis of the effects of direct and indirect variables on the performance of family succession. The questionnaires developed by Chaimahawong and Sakulsriprasert (2012) was used to collect data. The items were scored on a 6-point Likert-scale (ranging from 1 = strongly disagree to 6 = strongly agree). To measure each construct, items were developed based on previous studies. Perceived successor commitment, succession preparation and post-succession performance were measured by 17 items derived from Chaimahawong and Sakulsriprasert (2012), whereas succession implementation and perceived successor potential were measured by 13 items adapted from Phikiso (2017). Lastly, perceived successor capability was measured by 11 items developed from Walsh (2011). Overall, a 41-item questionnaire was developed.

Data Collection

The target samples are top and medium managers from 30 steel firms located in Bangkok, Samutsakorn, or Samutprakarn. According to Manprasert (2017) most of the top managers had gone through a leadership transition to the second or third generation of their family firms. The population of the study was limited to steel family firms assessing the succession planning from 2005-2017. The questionnaire was distributed to the top and medium managers at business operating and also distributed by sending online links through email and Line application. The sample of 169 has been collected out of 200 questionnaires which were sent out.

Data Analysis

The research used a statistical software for data analysis and statistical tests. Firstly, we used Cronbach's Alpha to test internal consistency for each construct and performed the reliability analysis. Then, we performed the convergent validity to test each construct and performed a discriminant analysis to prove that each construct provided sufficient evidence to conclude which each selected criteria were valid. Then we examined the measurement model and tested the hypotheses.

Result and Discussion

Table 1 below shows the respondent's background in terms of gender, age, the current generation operating in their family firm, and the number of years that their family firm has been established.

Table 1 Respondent Profiles

Items	Number	Percentage
Gender		
Female	70	41.4
Male	99	58.6
Age		
Below 30	26	15.4
30 - 39	78	46.2
40 - 49	54	32.0
50 - 59	7	4.1
60 and Above	4	2.4
Generation of Family Business		
1 st Generation	58	34.9
2 nd Generation	81	47.9
3 rd Generation	18	10.7
4 th Generation	8	4.7
5 th Generation	3	1.8
Years in Family Business		
Below 10 years	60	35.5
10-19 years	24	14.2
20-29 years	57	33.7
30-39 years	25	14.8
40 and above	3	1.8

According to Table 1, the majority generation of steel family firms are second generations as the generation of steel family firms is gradually changing and most samples are age 30-39. Surprisingly, most of them have years in family firms below 10 years.

Test of Validity and Reliability

Kothari (2009) stated that reliability is the quality of replicability of both study and measurement. The internal consistency of each construct in this research was tested by reliability analysis. Based on the criteria of 0.7, the result of Table 2 shows that all the constructs surpass the criteria with a sufficient evidence of good reliability. Table 2 also shows that the significant for the loading factors is above 0.5 which proved that the evidence of convergent validity for the scale used. Each construct was performed by testing for construct reliability. The result shows that the standardized loading of each construct was above 0.6, which supported the scales of reliability.

Table 2 Exploratory Factors Analysis and Construct Reliability

Construct and Items	Standardized Factor Loading	Cronbach's Alpha	CR	AVE
Construct 1: Potential of the successor		0.924	0.924	0.605
FMPT1	0.723			
FMPT2	0.728			
FMPT3	0.687			
FMPT4	0.693			
FMPT5	0.709			
FMPT6	0.617			
FMPT7	0.688			
FMPT8	0.633			

Construct and Items	Standardized Factor Loading	Cronbach's Alpha	CR	AVE
Construct 2: Perceived commitment of successor		0.919	0.920	0.697
FMCM1	0.619			
FMCM2	0.622			
FMCM3	0.653			
FMCM4	0.707			
FMCM5	0.737			

Construct and Items	Standardized Factor Loading	Cronbach's Alpha	CR	AVE
Construct 3: Perceived capability of successor		0.955	0.955	0.659
FMCB1	0.742			
FMCB2	0.715			
FMCB3	0.785			
FMCB4	0.777			
FMCB5	0.757			
FMCB6	0.726			
FMCB7	0.718			
FMCB8	0.771			
FMCB9	0.711			
FMCB10	0.795			
FMCB11	0.793			

Construct and Items	Standardized Factor Loading	Cronbach's Alpha	CR	AVE
Construct 4: Succession preparation		0.921	0.917	0.688
FMPR1	0.734			
FMPR2	0.682			
FMPR3	0.804			
FMPR4	0.683			
FMPR5	0.651			

Construct and Items	Standardized Factor Loading	Cronbach's Alpha	CR	AVE
Construct 5: Implementation of succession plan		0.912	0.912	0.674
FMIM1	0.720			
FMIM2	0.688			
FMIM3	0.767			
FMIM4	0.685			
FMIM5	0.642			

Construct and Items	Standardized Factor Loading	Cronbach's Alpha	CR	AVE
Construct 6: Post succession performance		0.933	0.931	0.660
FMPO1	0.737			
FMPO2	0.784			
FMPO3	0.768			
FMPO4	0.746			
FMPO5	0.695			
FMPO6	0.759			
FMPO7	0.691			

Moreover, according to Table 3 below, pair-wise discriminant tests were performed for discrimination validity in order to prove that all the constructs in the questionnaire are qualified to be used for SEM.

Table 3 Discriminant Validity Test

	FMPT	FMCB	FMCM	FMPR	FMIM	FMPO
FMPT	0.778					
FMCB	0.686***	0.812				
FMCM	0.717***	0.605***	0.835			
FMPR	0.659***	0.629***	0.790***	0.830		
FMIM	0.684***	0.572***	0.749***	0.709***	0.821	
FMPO	0.648***	0.581***	0.672***	0.665***	0.719***	0.813

A discriminant validity test was performed by comparing the square root of the average variance extracted with the correlations between constructs. The figures on the diagonal are the square root of the average variance extracted and the other figures are the correlations between constructs. We can also see that the correlations for each construct was greater than the square root of the average variance extracted. The result of Table 3 indicates that the test of discriminant validity was valid as each construct shared more variance with its measurement items.

Hypothesis Test and Model

According to all the fit statistics as shown in table 4, it shows that the model has passed all the tests for goodness of fit criteria which means the level of fit of the SEM Model is accepted. The following parameters were evidence that supported the goodness of fit of the model to the data (CMIN/DF = 1.731, RMSEA = 0.066, CFI = 0.901, SRMR = 0.081, PClose = 0.321).

Table 4 Goodness of Fit Test

Measure	Estimate	Threshold	Interpretation
CMIN	1009.239	--	--
DF	764.000	--	--
CMIN/DF	1.731	Between 1 and 3	Excellent
CFI	0.901	> 0.95	Acceptable
SRMR	0.081	< 0.08	Acceptable
RMSEA	0.066	< 0.06	Acceptable
PClose	0.320	> 0.05	Excellent

After we tested for the overall fit of the Structural Equation Model and measurement model, in order to test for the proposed relationship, each construct needs to be primarily linked under the proposed hypothesis as standardized estimates of the relationship show in Table 5.

Table 5 Proposed Relationship Test

Path		Coefficient	P-value	Result
H1: Perceived successor potential succession preparation	→	0.206	0.000	Supported
H2: Perceived successor commitment succession preparation	→	0.582	0.009	Supported
H3: Perceived successor capability succession preparation	→	0.391	0.005	Supported
H4: Succession preparation succession implementation	→	0.935	0.000	Supported
H5: Succession implementation post succession performance	→	0.955	0.000	Supported

The statistical significance found in all the hypothesized relationships with the confidence interval of 95 percent. According to Table 5, perceived successor commitment has a high impact on succession preparation with the impact level of 0.582, followed by perceived successor capability and potential of the successor which has coefficients of 0.391 and 0.206 respectively. An effective succession preparation has an effect on the succession implementation as H1, H2, H3, H4, and H5 are supported. With the coefficient level of 0.955, this result of the hypothesis test indicates that there is a relationship between succession implementation and the post-succession performance.

Discussion

The results of the research have shown that perceived successor capability factor plays a vital role in effective succession preparation and are the factors with the highest level of impacts. A successor with sufficient skills and traits is very important during the succession preparation as the incumbent is trust in the successor's capability that implies the support and the extents of opportunity to a successor in continuing the family firm. In many previous researches, a successor with the raw talent to do the job such as knowledge, entrepreneurial, managerial and leadership skills tend to be more successful in family business (Zuperkiene and Zilinskas, 2008; Harmaakorpi and Niukkanen, 2007). The findings of the research also indicate that perceived successor commitment toward family firm to take over has an impact on succession preparation directly. This is because the successor is interested and willing to be the next generation of the family firm without any family conflict which simplifies the preparation of succession plan (Cabrera-Suárez, 2005). According to Mugo, Njanja, and Minja (2016) commitment is considered an important factor in order to survive and continue the family firm for the next generation in the future. A previous research suggested that a low level of commitment and interest of the successor is most likely show down the growth of the family firm (Ibrahim and Ellis, 2004). Furthermore, according to the study findings, perceived successor potential significantly lead to succession preparation. Perceived successor potential was the third factor that the literature of Malinen (2001) pointed to a crucial factor for succession preparation. This is because there is the quality of the relationships between a successor, the incumbent and other family members which causes intention and willingness for the potential successor to take over

a family business. In addition, a potential successor requires to have the managerial skills to run the family firm. This is because succession preparation may be interrupted and cause a breakdown if the potential successor is unqualified and uncertainty due to poor self-confidence and lack of necessary skills and finally reject the position offered by the incumbent.

The result of the study found a strong relationship between succession preparation and the succession implementation. Good succession preparation given to the successor is allowed he or she to prepared officially and be able to carry out business assignments in the future. The higher the level of preparation that the successor has the higher the chance that a successor will enter the business with smooth succession implementation. According to previous studies, it is generally known that family succession may take a long time to prepare and complete the implementation but effective preparation is an important key to the success of succession implementation when the incumbent steps down and transfers the managerial power to the successor (Morris, Williams, Allen, and Avila, 1997). However, implementing incomplete and poor succession preparation are the main reason family firms fail to continue (Lansberg, 1999; Morris, Williams, Allen, and Avila, 1997; Miller, Steier, and Le Breton-Miller, 2003). Lastly, findings of the research are also consistent with previous research that effective succession implementation causes post-succession performance. However, there is no clear studies about how to measure an effective succession implementation (Dyer, 1986; Morris, Williams, Allen, and Avila, 1997; Cabrera-Suárez, 2005). According to Handler (1989), the initial satisfaction with the succession implementation brings desired post succession performance results encourage better performance for the successor.

Hence this can be concluded that high levels impact of perceived successor capability, commitment and potential causes succession preparation lead to the effectiveness of succession implementation and post succession performance. Therefore, in order to be successful after succession for the family firm, the preparation and implementation of a succession plan must be well organized and structured.

Conclusion

In order to ensure that a family-owned steel industries in Thailand will survive in the next generation, the important key factors which influence the succession preparation must be

identified. The succession process of family business is at the heart of business continuity from one generation to the next. The research suggests that perceived successor commitment, capability, and potential are important factors to ensure that the successor adequately meets certain requirements before the preparation of succession plan and the implementation of succession plan (Rothwell, 2015). Failure or success in family firm significantly depends on the success and effectiveness of succession planning, especially when the family firm may become a point of conflict between family members (Ismali and Mahfodz, 2009). In this regard, this paper has not only identified a number of factors but also examine the level of impacts of factors on the succession plan. The objective of this paper has been achieved as evidenced by the summary of the findings presented in this paper. Consequently, this paper has contributed to the field of knowledge by making crucial theoretical and practical contributions, especially in the succession plan and process in steel industries in Thailand. This study has provided several critical findings that are very beneficial for steel family firm in Thailand.

Theoretical Contributions

Theoretical contributions include the introduction of SEM concept that tests the levels of impact of a number of factors related to a succession plan. Moreover, this study will provide significant insights to scholars who will further the research on this area in Thailand. The findings of this study would be very helpful to the incumbent and the successor in terms of making smooth the transition process as well as stem challenges that might derail the succession plan as well as the success of the family business. This is because an effective succession plan ensures that a successor is selected through a logical process. The company should have clear information on whom they want to select, why they choose certain people, the competencies and capabilities that the successor has, and the needs that should be addressed later on. Following a well-thought-out process minimizes uncertainty in the company's processes. It helps formulate suitable steps, procedures, and policies for the selection of senior management officials such as the CEO. Implementing succession with a substandard plan has several negative effects. These include disputes, financial pressure, bad customer experiences, and reduced business productivity. To exploit the company's full value and potential, the succession plan should be initiated early enough. This enables a seamless transition and makes it possible

for the company to deal with unanticipated eventualities. The management should ensure that the potential successors have the skills to lead and motivate the employees and boost business performance.

Managerial Implication

According to the results of the research, there is a positive relationship of the findings and the proposed business succession planning model. The owners of the steel businesses in Thailand must carefully select the right successor that meet certain requirements before their next generation to maintain long-term growth and make their businesses remain sustainably in the future. Practically, in order to provide the successors with more capability in succeeding the family firm, employing a capable team and providing advance succession preparation for the successor should be considered by the incumbent. In order to enhance the successor's commitment to take over the family firm and provide the successor with more potential, the incumbent might consider showing confidence in the ability of the successor, ensuring of having courteous familial environment and giving a reasonable reward for successor working with the family firm. This research is useful for both the successor and the incumbent as it can be used to reduce the complexity of the ownership transition process and help to prevent failure during the succession of a family firm.

Limitation and Future Research

There are some limitations in this study which must be taken into consideration for the future research. Firstly, the sample size may have been small for this study which further larger sample are required in order to confirm the results. Secondly, this study was premised on quantitative approaches. Therefore, there is a need for future researches to employ other approaches as well as methods to collect data so that the qualitative perspective can be added to the insights on succession plans. Lastly, this study is one of the cross-sectional research that collects data within a specific time or period. Future studies should examine this area by using other methods in order to provide complementary insights into the succession plan. Moreover, there are several issues to be clarified as raised in this study such as the availability of a wide

range of variables that should be included consisting of value, culture, the effect of gender, and ownership structures that have impacts on a succession plan.

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