

# Exploring Succession Planning in Thai Family-Owned SMEs\*

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## ABSTRACT

The exploratory research of this paper provides an insightful outlook on succession planning in Thai family-owned SMEs as succession issues heighten in the wake of an increasingly volatile global business environment. From our study, 22% of business owners are aged 60 and over (as of June 2011) and, therefore, a significant numbers of voluntary and involuntary exit from their businesses will occur over the next three to five years. These approaching transitions face sobering statistics: only 14–30% of family businesses are transferred to the second generation, and just 10–15% survives into the third generation (Applegate, 1994, Beckhard and Dyer, 1983 and Dyer 1986). The existence and quality of succession planning potentially affects the sustainability of Thai family-owned SMEs. Adopting a survey questionnaire (to 330 respondents, response rate 33%) and 30 face-to-face interview, we document a general lack of formal succession plan among Thai SMEs. While business owners have a strong desire to transfer their businesses to their descendants, there remains either no arrangement or merely an informal agreement and often with no knowledge of descendants' willingness to be involved in the family business. Given that this lack or lacklustre planning may negatively affect SME businesses as well as the larger economy, business owners who do not vigorously pursue the establishment of a succession plan risk uncertain and unplanned behaviour in the face of unforeseen events. Formal succession planning is normally delayed until what is perceived as the right time and when the right person has come along to take over the business. These findings have implications for business owners and policy makers in addressing the long-term growth and sustainability perspectives of family-owned SMEs that warrants due attention in developing and establishing succession strategies to increase the long-term business sustainability level for future generations.

**Keywords:** Formal succession plan, Informal/unwritten succession plan, Transitioning ownership, Family-owned business, Thai SMEs

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# การสำรวจแผนสืบทอดธุรกิจของธุรกิจครอบครัว วิสาหกิจขนาดกลางและขนาดย่อมของไทย

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## บทคัดย่อ

งานวิจัยนี้เป็นการสำรวจในภาพรวม เพื่อความเข้าใจเกี่ยวกับแผนสืบทอดธุรกิจระหว่างรุ่นของธุรกิจครอบครัวที่เป็นวิสาหกิจขนาดกลางถึงขนาดย่อมของไทย ด้วยหัวข้อของการสืบทอดธุรกิจกำลังได้รับความสนใจ เนื่องจากการตื่นตัวของสภาพแวดล้อมทางธุรกิจทั่วโลกที่เปลี่ยนแปลงไปอย่างรวดเร็ว จากการศึกษาผู้วิจัยพบว่า ณ เดือนมิถุนายน 2554 เจ้าของธุรกิจที่มีอายุ 60 และเกิน 60 ปีขึ้นไป มีอยู่ถึง 22% ดังนั้นภายใน 3 ถึง 5 ปี ข้างหน้าจะมีผู้ถึงวัยเกษียณ ออกจากธุรกิจทั้งโดยสมัครใจและไม่สมัครใจอยู่เป็นจำนวนมาก นอกจากนี้ธุรกิจครอบครัวมีการเปลี่ยนมือไปยังผู้สืบทอดรุ่นที่ 2 อยู่ 14–30% และมีเพียง 10–15% เท่านั้นที่อยู่รอดจนถึงผู้สืบทอดรุ่นที่ 3 (Applegate, 1994, Beckhard and Dyer, 1983 and Dyer 1986) แผนสืบทอดธุรกิจจากรุ่นสู่รุ่นจึงส่งผลกระทบต่อคงอยู่ของธุรกิจครอบครัวที่เป็นวิสาหกิจขนาดกลางถึงขนาดย่อมของไทย งานวิจัยนี้ใช้แบบสอบถามสำรวจ (ผู้ตอบแบบสอบถาม 330 คน คิดเป็นอัตราตอบรับ 33% และสัมภาษณ์เจ้าของธุรกิจ จำนวน 30 ราย) ในการเก็บรวบรวมข้อมูล ผู้วิจัยพบว่าในวิสาหกิจขนาดกลางถึงขนาดย่อมของไทยยังขาดแผนสืบทอดธุรกิจอย่างเป็นทางการอยู่ ขณะที่เจ้าของธุรกิจมีความปรารถนาที่จะถ่ายโอนธุรกิจของเขาเหล่านั้นไปยังลูกหลานของตน แต่ก็ยังไม่มีการจัดการหรือการดำเนินการที่เป็นทางการแต่อย่างใด ทั้งยังไม่แน่ใจถึงความยินยอมพร้อมใจของลูกหลานในการเข้ามามีส่วนเกี่ยวข้องกับธุรกิจครอบครัว การขาดแผนการและความลังเลในการเข้าสู่ธุรกิจดังกล่าวอาจส่งผลในทางลบต่อธุรกิจ ไม่ว่าจะเป็นธุรกิจ SMEs หรือธุรกิจขนาดใหญ่ก็ตาม อีกทั้งการที่เจ้าของธุรกิจไม่กระตือรือร้นในการมีแผนสืบทอดธุรกิจ เป็นสิ่งบ่งชี้ถึงความไม่แน่นอนและพฤติกรรมของการไม่วางแผนที่มีอิทธิพลเหนือเหตุการณ์ไม่คาดฝันที่อาจเกิดขึ้นในอนาคต แผนการสืบทอดธุรกิจอย่างเป็นทางการถูกถ่วงเวลาออกไป จนกว่าผู้ก่อตั้งจะสามารถค้นหาคนที่เหมาะสมและจนกว่าจะถึงช่วงเวลาที่เหมาะสมในการรับช่วงธุรกิจ ผลการวิจัยส่งผลกระทบต่อเจ้าของธุรกิจและผู้กำหนดนโยบายจากสร้างความคิดในระยะยาวและความยั่งยืนของธุรกิจครอบครัว ในการที่จะนำกลยุทธ์ในการจัดให้มีแผนสืบทอดธุรกิจและพัฒนาแผนการสืบทอดธุรกิจสำหรับธุรกิจ SMEs เพิ่มสัดส่วนการดำรงอยู่ในระยะยาวอย่างยั่งยืนของธุรกิจจากรุ่นหนึ่งสู่อีกรุ่นหนึ่ง

**คำสำคัญ:** แผนสืบทอดธุรกิจอย่างเป็นทางการ แผนสืบทอดธุรกิจอย่างไม่เป็นทางการ การถ่ายโอนความเป็นเจ้าของธุรกิจครอบครัว วิสาหกิจขนาดกลางถึงขนาดย่อมของไทย

## INTRODUCTION AND OVERVIEW

A formal succession plan has emerged as a crucial element in the long-term success of SMEs. The recent financial crises have provided an impetus to focus on succession planning when numerous big and small companies as well as financial institutions have collapsed and undergone costly bankruptcy procedures across the globe. It is evident that under the corporate regulatory framework, or Corporation Act, large companies have succession plans for the continuation or cessation of operations. However, no such clear indication of succession arrangement is evident among SMEs, including family businesses. Recognizing SMEs' vital role in the socio-economic development of a country and function as a means of sustainable growth (Ibrahim, Angelidis, and Parsa, 2008; Kozan, Oksoy and Ozsoy, 2012) by generating the vast majority of employment and deliverance of goods and services, their survival is of paramount importance to any economy, particularly those of emerging markets. As such, succession planning appears as a driving force and norm for modern SMEs worldwide to ensure a smooth transition of ownership and governance/control from the current generation to its successors or descendants on valid grounds, including retirement, permanent disability, sickness, accident and sudden death etc. A failure to transfer a business to a successor or descendant may occur if a business is no longer profitable as per expectations or other reasons that would cause financial hardship to related parties as well as threaten economic sustainability. To overcome these problems, a succession plan is needed to prepare SMEs for transferring ownership and control when confronting predicted or unforeseen events. Thus, succession planning has emerged an urgent and challenging issue for SMEs.

Succession planning is also important to ensure a firm's safe landing if extant owners face any kind of planned or unplanned incidents. Intended incidents or events usually offer adequate time to make decisions on succession issues when an owner desires to exit a business voluntarily; however unplanned events often occur suddenly and abruptly without prior notice or any indication. In either case, a business faces difficulties unless it is well-prepared, because conflict may arise over the choice of 'internal succession' versus 'external succession'. Personal issues may also cloud judgment in the decision-making process.

Succession planning is not an instantaneous process; it might take years to draft and establish an effective plan. Therefore, proper and timely planning must be in place for its smooth implementation. It can neither be held hostage to daily operations nor be delayed until the last moment before owners believe it will be needed, because no one knows when that moment will occur. As human being, all business owners are racing against time and, with luck, eventually reach a late stage of life that calls for retirement and a smooth exit from their businesses. The emergence of an aging population and its impact on economic growth and social policy developments, such as health care have been a focus of public policy research, but the impact of an owner's aging on a family-owned SME has been overlooked (Bruce and Picard, 2006). To face this reality and protect businesses from foundering on

a poorly planned succession, it is now regarded as urgent that SMEs should have a formal or written plan in place to secure the smooth transition of their businesses.

While most SMEs in the developed world have succession plans to operate business as usual amid uncertainties, by and large SMEs in emerging markets lack initiative to draft or prepare such plans. Most SME owners are unaware of the benefits, while others perceive planning as a family or personal decision and prefer informal arrangements. Still others have no foresight: they take a fatalistic let time-decide approach or fear that such planning will lead to losing ownership and control in a pyramidal social structure. Being an emerging economy, Thailand faces similar challenges as mentioned above. Therefore, it is of interest to explore and gather first-hand information on the nature and status of succession planning in family-owned SMEs in Thailand.

In particular, this study attempts to answer research questions of i) whether any formal (written) or informal (unwritten/oral) succession planning exists among Thai SMEs and what status these plans hold; ii) for extant succession plans, their effectiveness, reasons for existence, factor or criteria employed to select successors, their substantiality, and whether they call for internal or external succession; iii) how planning was undertaken, the time involved in drafting plans, and costs incurred; iv) how they were implemented, and what other consequences occurred for the SMEs. On the other hand, if succession plans do not exist, we intend to explore v) whether an SME has ever felt a need for such planning. We also examine how to plan effectively in terms of exploration, valuation and review.

The remainder of the paper is organised as follows: Section 2 provides a brief conceptual discussion of succession planning and SMEs with a literature review, associated theory and the study's objectives; Section 3 denotes applied research methods and a sample selection for the study; Section 4 discusses the results and finally Section 5 highlights the conclusions and implications.

## CONCEPTS, THEORY AND LITERATURE

While most large corporations have official succession plans, most SMEs have none. Typical studies on succession planning focus on big enterprises due to an easy access to data, whereas such planning among SMEs suffers from a dearth of literature because of an unavailability of required data sources. This study attempts to fill this gap by gathering heretofore unknown data from primary sources. This part of the paper focuses on prior works to better understand the concepts of succession planning, SMEs, the challenge of succession planning and the need for action.

### 1. Concept of Succession Planning

Succession planning refers to the deliberate and formal process that facilitates the transfer of ownership/management control from one person to another. For SMEs, it means to transfer such control from one family member to another or to a non-family person, given that the preparation for

a succession event is done well before it happens. Such timely preparation is essential to capture and maintain the value of businesses to ensure their continuity of operations. A succession plan is perceived to be the appropriate response to a succession event. In general, a succession plan can be to sell, transfer or close a business. The plan comprises an ongoing process of (i) regeneration, (ii) retention and (iii) recruitment, with activities done separately or collectively depending on circumstances. On the website of PricewaterhouseCoopers (PwC) (2012), the PwC has surveyed 1,952 family business owners and managers in over 30 countries; the survey highlights the significant contribution family businesses make to economies and communities around the world. Furthermore, it is stated that 22% of business owners are aged 60 and over (as of June 2011) and, therefore, a significant numbers of voluntary and involuntary exits will occur over the next three to five years. The PwC Family Business Survey shows that family firms across the world continue to be resourceful, profitable and confident about the future. With strong values, long term decision making and a commitment to employment and local communities, the family way of doing business has unique strengths. However, there are also specific challenges, and long term success depends on the effective negotiation of three key tipping points: scale, skills and succession. According to the latest PwC Private Business Barometer, 44% of private businesses either do not have or do not know if they have a succession plan in place.

A succession event may be planned or unplanned. By their nature, voluntary succession events are predictable and characterise the vast majority of successions. When the owner(s) of an SME intends to leave the business for a variety of reasons, it is recognised as a voluntary succession event. Those reasons include retirement, caring for sick family member, divorce or separation, sale of ownership stake, changing the nature of a business, leaving the country of residence, imprisonment for criminal act, bankruptcy, and other socio-political reasons. In contrast, involuntary succession events are regarded as unforeseen events beyond human control, such as death, total and/or permanent disability and sickness of an SME owner(s). Indeed human life is continuously buffeted by uncertainties with illness, accident, natural disaster and war.

Given the nature of voluntary and involuntary succession events, many researchers, such as Christensen (1953), Trow (1961) and Ward (1987), stress the importance of succession planning to ensure business continuity, believing that a majority of family firms leave such planning to chance (e.g., Rue and Ibrahim, 1996; Leon-Guerrero, McCann III, and Haley, Jr., 1998; Roy Nat, Inc., 1998; Sharma, Chua, and Chrisman, 2000).

## **2. SME and Family-owned Business Definitions**

SMEs are identified in various ways across countries based on several characteristics, such as the amount of total assets and fixed assets, sales volume, number of employees, or a combination of these factors. Given that there is no universally accepted definition of small, medium and large businesses, researchers have adopted a broad range of definitions (Keats and Bracker, 1988).

Holland and Boulton (1984) defined family businesses as ones in which: (a) the firm's president or chief executive officer was the entrepreneur or the founder; (b) the business employed members of the entrepreneur's or founder's family; and (c) managers within the firm perceived the company as a family business. The definition of a family-owned business is defined by Chu et al. (1999) as being distinguished by the presence of certain identifying characteristics, notably that the firm's vision is (1) held and (2) pursued by a family or small group of families. Several researchers, such as Davis and Harveston (2000), Hufft, Jr. (1999), Rue and Ibrahim (1996) and Upton, Teal and Felan (2001), have developed and employed other definitions in their studies. However, a common theme within these studies is family ownership and control of the business and the involvement of family members in business decisions. For the definition of family-owned business, the study employs the definition under this common theme.

In Thailand, SMEs are classified as medium or small enterprises based on the number of employees and the amount of fixed assets, excluding land (Institute for Small and Medium Enterprises Development, 2006). They can be categorised as production, service or trading firms (retail and wholesale). For example, businesses in the production and service sectors are classified as small enterprises if their total assets are no more than THB 50 million (or USD 1.67 million) and they employ no more than 50 people whereas medium enterprises are those with total assets of THB 50-200 million (or USD 1.67-6.67 million) and employ 50 to 200 people. On the other hand, businesses in the wholesale trading sector are classified as small enterprises if their total assets are less than THB 50 million (or USD 1.67 million) and they employ no more than 25 people and as medium enterprises if total assets are THB 50-100 million (or USD 1.67-3.33 million) and employ 26 to 50 people. If the number of employees and value of fixed assets occupy different categories, e.g., one factor as small and one as medium, the enterprise will be classified in the lower category.

In our study, we focused the family-owned SMEs (99.33% of all enterprises, as of December 2011, were small firms) based on the definition above. The country's economic growth is largely driven by family-owned business sustainability; given that SMEs comprise Thailand's commercial and that the majority of SMEs are family-owned businesses with a low survival rate. About 30 percent of family-owned firms are transferred a second generation of family ownership (Kets de Vries, 1993) and only 16% survive into the third generation (Morris, et. al, 1997). This poor survival rate stems mainly from problematic succession planning and Thailand is no exception in this matter.

### **3. The Challenge of a Succession Plan and Underpinning Theory**

In their study of Canadian SMEs, Bruce and Picard (2006) report that 65% of SMEs had no succession plan, 28% had unwritten succession plans and 7% had drawn up formal written plans. Business owners provide numerous reasons for wanting to exit their businesses. Among those respondents, 82% indicated retirement as their No. 1 reason. Furthermore, 41% of Canadian SME owners intend to exit



ownership or transfer control of their businesses within five years and 71% within 10 years. More than half of family firms in North America expect their CEOs to retire within the next 10 years (Astrachan, Allen, Apinelli, Wittmeyer, and Glucksman, in press; RoyNat Inc., 1998, cited in Sharma, Chrisman and Chua, 2003). However, many studies show that most entrepreneurs want ownership and management to remain in the family (Kirby and Lee, 1996; Emling, 2000). Another study on European participants shows that less than 50% want to take part in their family businesses, preferring to start their own companies (Stavou, 1996).

The studies of Stoy Hayward Consulting (1989) and Handler (1994) show that only 24% of family businesses are transferred to the second generation and only 14% survive into the third generation. These findings are similar to those of Beckhard and Dyer (1983) and Dyer (1986), which show that only 30% of family businesses survive beyond the first generation. Applegate (1994) also indicates that only 10-15% of businesses survive into the third generation. In addition, around one-third of owners of small companies are over 50 years of age (European Observatory for Small and Medium-Sized Enterprises, 1996); therefore, it seems urgent to find mechanisms to make successions more successful.

The problem of putting a succession plan in place in due time is mainly from the unwillingness of business owners to plan (Poe, 1980), sometimes over fear of losing a central role in their businesses (Lansberg, 1998). However, attempts to encourage SMEs to engage in succession planning are increasing. The European Commission is aware of the problems concerning succession and recommends several solutions in the legal and fiscal fields. The recommendation contains 10 Articles, such as Article 4, which mentions that business persons should be provided with instruments that will allow the best preparation for transfer, and Article 6 regarding the survival of enterprise within a family, which invites member countries to reduce the taxes on assets exclusively used for the business in the case of transfer (European Commission, 1994).

The importance of SME sustainability is obvious. The studies mentioned above and the EU's recommendations raise many questions: Why do entrepreneurs fail to carry through a succession plan during their lifetime? Why don't a qualified majority of children wish to assume their parents' businesses? How does one implement a successful succession plan for SMEs? Expanding the use of succession plans for SMEs is an increasingly urgent matter as founders' age, unexpected events can occur at any time, and the desire of the descendants to continue these businesses cannot be relied upon. Without adequate preparation and succession arrangement, many owners will be forced to sell their businesses at a discount to competitors or face the associated risk of business closure and loss of jobs. The challenge, therefore, is to turn these risks into opportunities for most SME owners, their employees and the economy at large.

However, Astrachan and Kolenko (1994) have challenged this argument; they found no empirical linkage between the use of written succession plans and firm continuity. Furthermore, despite a rising

number of female-owned businesses (Dickerson, 1999) the role of women in the succession process has not been well accepted (Danco, 1994). Relationship between personal factor, intra-family relationship, context and financial factors is studied by Chaimahawong and Sakulsriprasert (2013). The result drawing from the samples of 374 Thai family business owners demonstrates that context factors and personal factors are two main factors that have highest levels of impact on the effectiveness of the succession process. However, despite the recognised importance of succession issues to businesses, little is known about the process — especially among Thai family businesses. A failure of succession due to lack of planning is believed to blight the larger economy.

The theory of ‘planned behaviour’, as specified in Ajzen and Fishbein (1980) and Ajzen (1987, 1991), was adapted in Krueger and Carsrud (1993) to explain the behaviour of entrepreneurs, and in Stavrou (1999) to explain potential successors’ intentions to take over a business. It is probable that an individual will take action depending on his or her intention to engage in that behaviour (Ajzen and Fishbein, 1980; Ajzen, 1987). Intention, as stated by Krueger and Carsrud (1993), is molded by an individual’s attitudes or judgments including the perceived desirability of the outcome to the initiator. Fishbein and Ajzen (1975) and Ajzen and Fishbein (1980) report that individual attitudes or judgments about an issue influence behavioural intentions, which in turn influence behaviour. Dubinsky and Loken (1989) confirm a positive relationship between attitudes/judgments that an action was morally acceptable and the intention to perform the action. Wimbush, Shepard and Markham (1997) contend that a perceived organizational climate is positively related to individual attitudes/judgments, intentions and behaviour in organizations. Furthermore, Bass, Barnett and Brown (1999) demonstrate that individual attitudes/judgments are strongly predictive of behavioural intentions. Several researchers (e.g., Ajzen, 1991; Krueger, 1993) strongly support the theoretical relationships proposed between (i) Attitudes/Judgments, (ii) Intention, and (iii) Action/Behavior.

Sharma, Chrisman and Chua (2003) study on succession planning as planned behaviour. They used the planned by haviour to hypothesize the influence of the incumbent’s desire to keep the business in the family, the family’s commitment to the business, and the propensity of a trusted successor to take over on the extent to which family firms engage in succession planning activities. The propensity of a trusted successor to take over significantly affects the incidence of all succession-planning-related activities. Succession planning may, then, be the result of push by the successor more than of pull by the incumbent. Chrisman, Chua and Sharma (1998) grouped the desirable successor attributes, according to the literature, into six categories: (i) relationship to the incumbent, (ii) relationships to other members of the family, (iii) family standing, (iv) competence, (v) personality traits, and (vi) current involvement in the business. In addition, they conducted research by using the mailing list of the Canadian Association of Family Enterprises (CAFÉ) and non-members of CAFÉ and found that integrity, commitment to a business and respect from employees ranked significantly as the highest attributes, respectively, for choosing successors.



#### **4. Research streams on succession planning**

The research on succession planning conducted in family-owned businesses can be categorised into three main research streams. Several papers were found in scholarly journals but very few had strictly dealt with succession planning in SMEs.

Research stream No. 1: study of definition and overview articles on succession planning

Several research studies have provided comprehensive definition of the term ‘succession planning’ in family-owned business such as those of Cliffe (1998), Handler (1989), Manikutty (2000), Miller, Steier and Le Breton-Miller (2003), Rodenberg and Woodbury (1999), Shepherd and Zacharakis (2000), Suarez, Perez and Almeida (2001) and Theune (2000). The findings of many articles included the need to plan for succession, such as in papers studied by Barach and Ganitsky (1995), Dana (1999), Guillenmette (1999), Mace and Williams (2000), Scully (2000) and Spector (2000), while other studies may cover the important factors involved succession planning (Ceynowa 1999, Fox, Nilakant and Hamilton 1996, Hutchenson 2000, Theune 2000). Some researchers also suggested the effective succession planning from the findings of their studies (Emley 1999, Frieswick 1996).

Research stream No. 2: developing conceptual models for assessing and implementing succession planning strategies

Several researchers have developed theoretical models of succession planning in family-owned businesses such as Bjuggren and Sund (2001), Manikutty (2000), Longeneckere and Schoen (1978), Suarez, Perez and Almeida (2001) and Wortman (1994). From these studies, the authors tried to introduce the models such as one by Longeneckere and Schoen (1978) about parent-child succession in the leadership of family-owned firms that involves seven stages beginning in childhood. However, the main criticism is that little effort has been made to adopt existing theory to develop a comprehensive model of succession planning.

Research stream No. 3: assessment of the succession planning in family-owned businesses

Family firms are not a homogeneous group (Sharma, Chrisman and Chua 2003). Several factors are used to distinguish family-owned businesses and the differences in orientation and business practices between family-owned and non-family-owned businesses are also explained. Research under this stream includes that by Brown and Coverly (1999) who concluded that most owners do not plan for their succession despite knowing what they required from their successors. However, most of them still have no set plans for formal succession. Chrisman, Chua and Sharma (1998) also conducted research by sending questionnaires to 485 family-owned firms in Canada to learn what attributes of successors are required by the incumbents. Their research findings provide rich information that incumbents consider personal quality, ‘integrity’ and ‘commitment of business’ to be the most important attributes for successors to possess, while gender and birth were rated as least important.

Based on planned behavior theory, research stream Nos. 1 and 3, and prior research, this study examines the current state of succession planning process in Thailand and whether the approach is consistent with the prevailing view among researchers. The focus then turns to the influential factors on succession planning and the appropriate succession planning strategy for Thai family-owned SMEs.

## RESEARCH APPROACH

Although there have been many studies have focused on family succession, very few are qualitative based. Our research adopted a mixed method of quantitative and qualitative techniques. The study uses questionnaire surveys and interviews based on explorative research techniques to examine the complexity of succession planning in Thailand with a view toward gaining an in-depth understanding of the research matter. The questionnaire is newly constructed to best fit to Thailand’s context. By analysing first-hand survey data and face-to-face interviews, the findings are interpreted qualitatively.

Our research framework focuses on the characteristics of the respondents, the business itself and its’ performance. The study also attempts to discover the reasons for having a succession plan and factors or criteria in choosing successors. We study the implementation and nature of succession plan in Thai family-owned SMEs. With these focuses, we hope to see a successful business transition from one generation to another and the long-term continuation of family-owned businesses (See Figure 1).

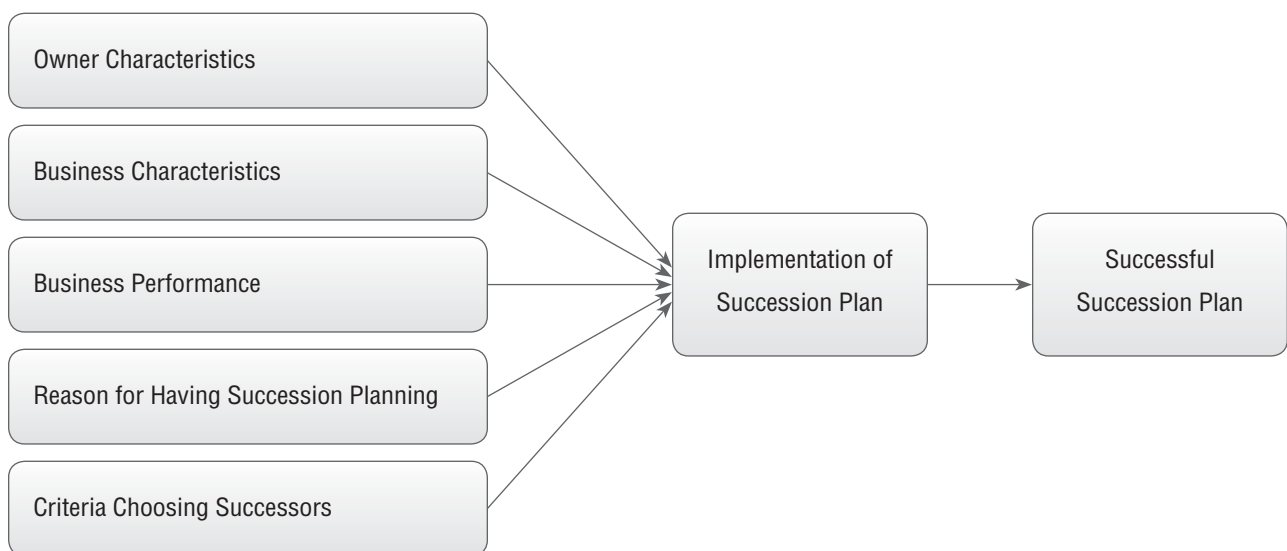


Figure 1: Research Framework

## **1. Samples**

This study focuses on Thai family-owned SMEs. To select SME samples, the samples are drawn from selected Thai SMEs obtain from Institute for Small and Medium Enterprises Development, in diverse business types to avoid a contextual constraint associated with any particular industry. Systematic random is used to select the firms from the list. Questionnaires are then posted to the selected samples and then categorised after receiving back the completed questionnaires according to their number of employees. While selecting samples for interviews uses different approach, convenient samples are selected due to the time constraint and budget. Most of the interview respondents employed full-time and part-time staff and are categorised as small enterprises. Following criteria were used to categorise the sizes of the respondents - micro, small, medium and large enterprises.

- Micro enterprise: 0-5 employees
- Small enterprise: 6-49 employees
- Medium enterprise: 50-200 employees
- Large enterprise: over 200 employees

## **2. Questionnaire Design and Data Collection**

The study adopted research stream Nos. 1 and 3 mentioned above. As an objective of the research is to explore succession planning among family-owned SMEs, the questionnaire is then newly designed to match with the objective and the data needed for the study. We attempt to see the need to plan for succession, to investigate the important elements involved in planning process (stream No. 1) and to assess the effectiveness of existing succession planning, and to try to distinguish the required attributes of successors from the perspective of incumbents (stream No.3).

The survey instrument included a cover letter and self-administered questionnaire. The cover letter explained the study's objectives and importance. Respondents were informed that their participation was voluntary and presented no risks. Moreover, the cover letter stated that the study had received funding from three organizations: 1) Thailand Research Fund (TRF), 2) Office of the Higher Education Commission of Ministry of Education, and 3) Rangsit University, with contact details provided for verification. The contact details of the researcher and mentors/supervisors were also provided.

The self-administered questionnaire is newly designed to answer the objectives of the research. It includes two main areas: 1) demographic data on the owner and business (firm demographics include age, industry and generation in control; owner/manager demographics include age, gender, education and experience); and 2) required data regarding the reasons for having or not having a succession plan.

In some parts of the questionnaire, nominal scales were used to obtain information from respondents about their intended exit timeline, exit objectives and existing succession plan. A five-point Likert Scale of 1 (strongly disagree) to 5 (strongly agree) was used to assess the perceived benefits of a succession plan. Further, a range of questions was asked to obtain general information about the firm and its succession plan.

Research samples were drawn from selected Thai SMEs in diverse business types to avoid a contextual constraint associated with any particular industry. A hard-copy questionnaire was mailed to the selected samples of 1,000 enterprises. Excluding ineligible and unreachable recipients, 330 responses were obtained, representing a response rate of 33%, which seemed in line with survey literature. Data were also collected through 30 interviews with SME owners or representatives. Convenient sampling is used for the interviews. The names of the participants in the interviews are remained confidential and undisclosed.

## RESULTS AND DISCUSSION

### 1. General information on respondents and business characteristics

Tables 1 to 3 provide information on samples of the surveyed SMEs. Table 1 reveals that all respondents are categorized either micro (44.24%) or small firms (55.76%).

**Table 1:** Sample Size Classified by Number of Staff

Sample Size	Number of Respondents	Percent (%)
Micro: 0–5 employees	146	44.24
Small: 6–49 employees	184	55.76
Medium: 50–200 employees	0	0.00
Large: > 200 employees	0	0.00
<b>Total</b>	<b>330</b>	<b>100.00</b>

It appears that the gender ratio of owners/founders is equal between male and female. The vast majority of respondents are middle aged, 31-50 years old (53.9%), and obtained higher education, while only 4.5% of respondents are above age 60 (Table 2).

**Table 2:** Characteristics of the Respondents

Characteristics	Details	Percent (%)
Gender	Male	49.70
	Female	50.30
Age	< 20	0.00
	21–30	24.50
	31–40	30.90
	41–50	23.00
	51–60	17.00
	> 60	4.50
Education	Diploma and lower	44.00
	Bachelor	45.50
	Post Graduate	10.60

Table 3 below shows that most firms are sole proprietorships (81.2%), while other are partnerships (17.6%) or corporations (1.2%). Most businesses are run by the founders (74.20%), followed by descendants and relatives (24.5%) and a few by employed managers (1.2%). The main financial resources of the respondents comes from the business owners (83.60%), followed by financial institutions (11.80%) and relatives (3.9%).

**Table 3:** Business Characteristics

Details	Percent (%)
<b>Legal Status</b>	
Sole Proprietorship	81.20
Partnership	17.60
Corporation	1.20
<b>Is the respondent a founder?</b>	
Yes	72.10
No	27.90
- 2nd Generation	91.80
- 3rd Generation	8.20

Table 3: Business Characteristics (Cont.)

Details	Percent (%)
<b>Business Type</b>	
Retail and Wholesale Trade	26.70
Service	33.00
Manufacturing	35.50
Other	4.80
<b>Import or Export?</b>	
Yes	12.70
No	87.30
<b>Business managed by:</b>	
Founder	74.20
Descendants	22.10
Relatives	2.40
Hired manager	1.20
<b>Primary financial resources from:</b>	
Business owner	83.60
Relatives	3.90
Creditors	0.60
Financial Institutions	11.80
<b>Number of Employees: Full-Time</b>	
0-5	67.80
6-10	12.20
11-20	12.12
21-50	7.88
<b>Number of Employees: Part-Time</b>	
0	30.60
1-20	66.40
> 20	3.00

Number of Respondents: 330



Almost four-fifth businesses are run by founders (74.2%) and one-fifth by descendants (mostly second-generation family: 22.1%), while very few by relatives and employed professional managers (3.6%). In an emerging market context, this is a common scenario for SMEs: businesses are generally run by their founders, who invested their own money, labour and energy into their businesses. The table also shows that besides running businesses by themselves, family members and relatives founders also employed a few full-time and part-time employees to assist them in running business operations.

## 2. Current nature and status of succession planning in SMEs

With the background information in Tables 1–3 above, Table 4 below highlights the facts surrounding the main interest of this research, i.e. succession planning and its current nature and status in Thai family-owned SMEs. Summary results in Table 4 show significant positive information that most respondents (73.9%) clearly understand succession planning, (i.e., they are well aware of the need for succession planning, its content and execution). Only 26.1% of respondents have little knowledge about succession planning. When it comes to the existence of a plan, it appears that 45.8% of SMEs have a formal or informal succession plans while 54.2% have none. As for the formal or informal succession plans of the 45.8% of respondents, the vast majority have informal or unwritten plans (77.9%) and the rests have formal plans. This documents a general lack of formal succession plan among Thai SMEs. Such evidence is quite different from the state of succession plans among SMEs in developed economies. However, it is unsurprising in an emerging market context like Thailand’s where data show that 81.2% of SMEs are sole proprietorships. The owners/founders feel no urgency to have a formal succession plan, but only an informal one. Again, seemingly they know its importance for the firm, because 60.3% of respondents are considering drafting a plan in the near future and are prepared to transfer the business to their descendants or relatives, while 12.7% of the respondents think to sell their businesses. Interestingly, even though the founders know and plan for the next generation to assume their businesses (Table 5).

**Table 4:** Summary Results of Succession Planning Status of the Thai SMEs

Details	Percent (%)
<b>Do you understanding succession planning?</b>	
Yes	73.9
No	26.1
<b>Do you have a succession plan in place?</b>	
Formal	10.1
Informal	35.7
No	54.2

**Table 4:** Summary Results of Succession Planning Status of the Thai SMEs (Cont.)

Details	Percent (%)
<b>Do you intend to draft a succession plan in the near future?</b>	
Yes	60.3
No	39.7
<b>To whom do you plan to transfer the business?</b>	
Son or daughter	47.8
Spouse	0.6
Brother, sister or other relatives	10.9
Sell the business	12.7
Not sure	2.4
<b>Does your successor recognize that he/she is the assigned successor?</b>	
Yes	43.6
No	56.4
<b>Is that person involved in the business already?</b>	
Yes	50.0
No	50.0
<b>Do you think the assigned successor wants to run the business?</b>	
Yes	32.4
No	9.4
Not sure	58.2

Number of Respondents: 330

Results from the questionnaires provide a solid understanding of the current state of succession planning among Thai SMEs regarding the awareness, existence, operative nature and importance of having a succession plan.

It is also worth noting that many respondents (45.5%) consider having a succession plan as a necessity, but thought they could wait until an undetermined ‘right time’, while only a few (4.8%) thought it was critical to draft one immediately (see Table 5). Written succession plans cover events including sickness, death and aging, while accident and divorce seem to be ignored. Unfortunately, those owners with succession plans pay little attention to regularly updating their plans; 58.2% owners never updated their plans while only 13.7% review their plans annually. Some respondents expressed discomfort with consulting outsiders over this issue, as mentioned here:

*'I don't think I can consult anyone on this issue as this is a family business and I don't even know if any such service is available. What would be the fee for this service? Why should I have to think about it now? Can't it wait?'*

Seeking professional support is seen as a possible course of action; however in this context it is important to note that more than 50% of respondents feel they cannot find adequate advice and/or at an acceptable cost. A few interviewees with succession plans (mostly informal) established their businesses more than two decades ago and have reached a stage of financial stability and security.

**Table 5:** Summary Results of Written Succession Plans of Thai SMEs

Details	Percent (%)
<b>What are the events mentioned in the written succession plan?</b>	
Death	22.7
Age	11.2
Sickness	33.3
Accident	3.6
Divorce	1.2
Other	27.2
<b>Efficient level of succession plan?</b>	
Excellent	9.4
Very Good	18.2
Good	53.9
Fair	15.8
Poor	2.7
<b>How often is the succession plan updated?</b>	
Never	58.2
Every Year	13.7
Every Three Years	17.9
Every Five Years	3.3
Others	6.6
<b>Reasons for changes?</b>	
To expand the business	67.0
Previous succession plan is no longer appropriate	29.4
Other reasons	3.6

**Table 5:** Summary Results of Written Succession Plans of Thai SMEs (Cont.)

Details	Percent (%)
<b>Did you seek advice from a professional consultant?</b>	
Yes	13.6
No	86.4
<b>Level of importance/necessity of having a succession plan?</b>	
Critical	4.8
Very Important	24.2
Important but can wait	45.5
Slightly Important	18.8
Unimportant	6.7
<b>Do you think that there is any negative influence to the business in having a written succession plan?</b>	
Yes	17.0
No	83.0

Number of Respondents: 330

In addition, most businesses (86.4%) do not seek advice from professional consultants on succession planning due to a perceived lack of necessity and urgency. With old age approaching, many founders accept that age is a key factor in considering the choice of successors. Some owners do not see the need for having a succession plan; however, many owners (43.6%) seem to delay choosing a successor or having a succession plan in place, and many seem unsure who would be a successor. One of the respondents also mentioned:

*'I have three children and all of them help me running the business right now. As this is our business, we need people who we can trust. Who should be my successor when I am no longer here? My first and oldest daughter has helped me a lot. Should I place her as the successor? What if she marries a man who has no interest in running the business? Then my business will finish sooner or later'.*

Regarding the main reasons for having no succession plan, Table 6 below reveals that the owners want to wait until some undetermined 'right time' to draft one; they see no urgency until this so-called perfect time appears. About 23.0% are unsure about the choice of a successor, while another 15.5% find it difficult or fear initiating internal problems in their firms (giving these reasons at 7.9% and 7.6%, respectively). Regardless of the existence of an official succession plan, most business

owners (83.0%) think favorably of the idea of having a plan, but give little priority to establishing one. The main criteria for selecting successors are experience, personal relationship and education, respectively in order of importance, with age and gender getting lesser attention. These findings are worthy of consideration within the socio-economic context to design strategies for succession planning, such as timing and finding the right person with experience, knowledge and education.

**Table 6:** Summary Results of Criteria in choosing Successors in Thai SMEs

Details	Percent (%)
<b>What factors influence you in making a succession plan?</b>	
Age	71.2
Satisfy the management or partners	18.8
It is the business policy	10.0
<b>For respondents without a succession plan, what are the reasons?</b>	
Need to wait for the right time	43.6
Not sure who will be the successor	23.0
Having one is unimportant	17.9
It is rather difficult and complicated	7.9
Afraid of creating internal problems in the business	7.6
<b>What are the main criteria in choosing successors?</b>	
First priority	Experience
Second priority	Personal relationship
Third priority	Education
Fourth priority	Age
Fifth priority	Gender

Number of Respondents: 330

The results from face-to-face interviews with respondents provide some new perspectives in succession planning, as what seems important to large enterprises may differ from the perspective of SMEs in Thailand. Most Thai SMEs are run by founders who have some criteria in mind about their prospective successors. Most of these firms were founded by people of Chinese heritage who traditionally transfer their businesses to their first sons. Education, age and gender seem to be less relevant in the process of naming a business successor while experience in the business and personal relationship are ranked as the main criteria, employing the expression ‘blood is thicker than water’. This

result corresponds to the research of Chrisman, Chua and Sharma (1998) revealing that a manager's tenure and investment in a family business are the most important factors in choosing successors. Such experience engenders a greater appreciation to select a successor with the best mix of personal qualities, business and interpersonal skills, and experience. Succession will work well only if the business is passed onto a person having the skills to run it smoothly and successfully. When there is one obvious interested candidate, the process is straightforward. However, when more than one person is interested and capable of taking over, choosing a successor becomes far more complicated and difficult to deal with. A related issue is that if no one wants to run the business, then making a sale by one or all family members could be a last resort.

Most interview respondents do not believe forcing SMEs to develop a written (or formal) succession plan would be successful at this stage as their urgent need is to maintain profitability, let alone cope with other problems in the course of time. A lack of time is commonly cited in SME literature for failing to plan, as most owners are actively involved in all aspects of their firms' operations. Furthermore, they do not want to think about leaving their business, and fear of creating conflict among family members or relatives.

Despite recognizing the need for a successor, many owners do not comprehend deeply the other benefits of having a succession plan. From the in-depth interviews, we find that most of them do not realize that their business knowledge and entrepreneurial skills need to be transferred to the next generation and that succession planning will provide more for the family's future and their retirement. One respondent expressed that:

*'Well, sometimes I think my children could gain the experience themselves. Their world and my world are different. They know more than I do in so many aspects. I think they can do it professionally, especially dealing with technology such as the Internet, selling on a Website, which I know nothing about. However, I may help them with something like business networking and connections, if I need to leave my business. But I have never thought about it; dealing with day-to-day issues keeps me busy right now'.*

The message above gives us some ideas that entrepreneurs seem to see the changing business environment from the pressing challenging of technology. They see that their children are capable of working with new technology, but still need support from their parents especially with existing relationships and networks. A few respondents reflected upon their concerns about their interpersonal relationships with business partners and suggested that the transferring of networks is a must right now.

*'.....my children are raised when the business was quite certain. They didn't seem to see the hardship of their parents in running the business in the old days. They are now taking care of our business but still don't get along so*



*well with our business partners and other traders. They think in their own way which sometimes differs from what we think. They lack good relationships with business partners. And yet, many business partners seem not to fully trust them when it comes to big problems such as finances and credit term negotiation’.*

Our suggestion drawn from this interview is to transfer not only business networks but also concepts and philosophy. This transfer usually takes time for successors to understand and to absorb fully the ideas and concepts from the business founders. Furthermore, such business concepts and philosophy may require cooperation in working together between the founders and successors over a long period of time.

## CONCLUSION AND IMPLICATION

Succession, especially in a family business, is a process rather than an event. A formal succession plan appears instrumental to the success of an SME to remain in business beyond the founder’s generation and contribute to a family’s and country’s economic well-being. The sooner the owners start the process, the better their chances for success. In many cases, owners give thought to succession planning, but they delay implementation. This can cause serious problems for the business if the owners leave the business earlier than planned due to death, disability or illness. Given the importance of having a succession plan in hand, this study explores the state and nature of succession planning among family-owned SMEs in Thailand. It investigates whether a formal or informal succession plans exists in Thai SMEs and their effectiveness therein. If a firm has no plan, why is this the case? To get first-hand data from Thai SMEs, a survey-based research method was employed by developing a questionnaire as well as conducting interviews. This paper provides findings from 330 respondents or 33% from the questionnaire survey, and 30 in-depth interviews on the issue of succession planning.

The results indicate a mixed scenario on having a succession plan to protect the interests of SMEs and associated parties. The data reveal that most SMEs have no structured organisational form as they are sole proprietorship with few or no outside/external employees. As family-oriented businesses, they feel no urgency to draft a formal succession plan. Although most SMEs are operated by their founders, they lack foresight to help ensure the intergenerational success of their businesses. This study shows that 45.8% of SMEs have succession plans, but 78% of them are informal. Only 20% of SMEs have a formal, written plan to execute when needed. Over 70% of respondents feel no urgency despite having a positive attitude toward drafting a plan someday. While they recognise that a succession plan has no negative impact on their businesses, they intend to wait for the last moment to find the right person to carry on their businesses. This cavalier attitude appears to be non-beneficial and potentially costly or even fatal to their firms.

However, unlike developed economies, these findings in an emerging context like Thailand's are unsurprising, considering the socio-economic phenomenon in which enlightened self-interest gets priority over other issues regarding succession planning. This is due to the daily struggle that SMEs face in running businesses with inadequate capital and with either no employees or as few as one to five employees, while laying aside thinking about unforeseen events that may or may not occur in an indefinite future. However, the key issue related to successful succession planning is not technical, but understanding its urgency. Most business owners or founders do not see it as a matter of 'NOW' to choose their successors, ignoring the potentially devastating consequences of failing to timely prepare for intergenerational succession. Without proper planning, many owners may be forced to sell their businesses at a discount to competitors or face the associated risks of business closure and loss of jobs. The challenge for SME owners is to turn these risks into opportunities for themselves and the economy at large. It is also noteworthy that business size may have a large effect on how successors are chosen. This study reveals that experience and personal relationships comprise the most important criteria in choosing successors. Other criteria, such as commitment to business, employees, and creativity were omitted from this research, but they seem to grow in importance as a firm grows.

Finally, in regard to management practices, the study's findings reveal considerable room for improvement in planning for effective succession in family-owned SMEs. The improvement for succession planning could possibly be done by providing education to the stakeholders. Educational institutions may attempt to take this theory and practices to their students to provide better understanding. Continuing courses after graduation, short courses or seminar on 'Entrepreneurship' could be another alternative for entrepreneurs to learn about succession planning. This would place knowledge where it is needed: in the hands of business managers and founders so they can proactively transfer their businesses from one generation to the next. Furthermore, strong support from government could promote succession planning. Just as the European Commission raised this awareness among business owners and recommended several solutions in legal and fiscal fields, the Thai government can do the same. Promotion from the public sector can build motivation and acknowledgement by the private sector to focus on business continuity by the means of succession. This study contributes to the dialogue on the urgency for succession planning in SMEs as well as to the ongoing interest in the process by which SMEs can achieve smooth and successful transition of ownership and control.

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