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Founder succession in small businesses

Mike Parkhurst

Pepperdine University

Graduate School of Education and Psychology

FOUNDER SUCCESSION IN SMALL BUSINESSES

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Mike Parkhurst

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Kent Rhodes, Ed. D – Dissertation Chairperson

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Michael S. Parkhurst

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Doctoral Committee:

Kent Rhodes, Ed.D., Chairperson

Mark Allen, Ph. D.

Jeffery Decker, Ph. D.

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DEDICATION

I dedicate this work to my wife,

Ronniejean Parkhurst

who has unceasingly inspired me to achieve more than I ever thought possible.

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ABSTRACT

The purpose of this study is twofold. The first is to replicate and expand on previous studies by Rubenson and Gupta (1992, 1996) who introduced a contingency model for the initial succession of an organization. The second purpose is to verify that their model is applicable to organizations that are substantially smaller than the original 54 Fortune 1000 companies that were studied. The researcher used a qualitative research methodology to answer the following research questions.

1. Is the Contingency Model of the Initial Succession proposed by Rubenson and Gupta (1996) transferable to organizations of smaller size and lower revenues?
2. Were the founders of small sized organizations planning for their eventual succession?
3. What other factors came into play beyond those outlined by Rubenson and Gupta (1996) during the succession process?

The qualitative research methodology employed was a grounded theory research design utilizing personal interviews with the first successors of an organization. The researcher used a combination of structured and unstructured questions during the interviews of 15 successor CEOs about the process of succession from the founder to them as the next organizational leader. Participants in this study were chosen by a combination of purposeful sampling and chain referencing methods. All the participants and organizations in this study met the following criteria: (a) the interviewed successor must be the first leader after the founder, (b) the organizations must have been between $5 and $200 million dollars in annual revenue at the time of succession, (c) the organizations

must have had 200 employees or less at the time of succession, and (d) the succession must either be in process or have happened within the last 5 years.

The results of this study suggest that founders who maintain a controlling equity position in their organizations are able to set the date and method of their succession with impunity. Only 6 of the 12 sub-factors in the model for the initial succession were confirmed in the sample population of this study. It is the authors conclusion that the proposed model by Rubenson and Gupta (1996) as it is currently constructed had minimal explanatory power in the target population of this study. Additionally, 6 themes were discovered during the interview process: founders are thinking in terms of how to cash out of the business rather than their legacy; founders are not planning for succession until it is thrust upon them by illness, old age, or by their family; founders did whatever they wanted because they were the majority shareholder; successors are not inclined to confront the founder; founders have a high level of self identification with the organization; and founders hung onto the organization because it was their hobby.

Chapter 1: Introduction

The following paper is a research paper is about the applicability of the Contingency Model for the Initial Succession (Rubenson & Gupta, 1996) to smaller organizations. Chapter 1 will discuss the reasons why the subject of founder succession needs further study. Chapter 2 will provide a summary of the literature that has already been published on the issue. Chapter 3 will explain the research methodology that was used in this research project. Chapter 4 will review and present an analysis of the data that was gather in the study. Chapter 5 will discuss the implications of the results of the study as well as present a series of recommendations for founders, successors, and members of the board of directors. The first section of chapter 1 will describe the problems associated with the initial succession in an organization, as well as the general background of founder succession research. Next, there will be a section on the purpose for the study, as well as the limitations of the study. Lastly, there will be a discussion on the significance of the problem and why research on this subject was pursued.

The Problem

All organizations have a beginning. The first person to lead the organization is often called the founder due to the activities that surround the birth of the organization. They are the ones that imbue the organization with its values and mission. From raising capital, to finding the first customers, to hiring staff as the organization grows, the first leader of an organization lays the foundation upon which the organization establishes itself and develops. According to Drucker (1954), top management is critical to both the success and survival of the organization. The CEO has the ability to define and control the strategy of their company and actively determine which opportunities to pursue

(Wasserman, 2003). Often these CEO-founders are entrepreneurial in nature who are building a company from scratch and expect one day to hand off the operation to an heir, to sell the company to a third party, or even to take the company public in a stock offering. Even those founders who are intending to build a family business still have to make a decision as to whether they transfer control of their company to a family member or to a professional manager who would run the business, but who would not own the business. Research has shown that second generation CEOs often exhibit poor performance as compared to non-related CEOs (Bennedsen, Nielsen, Perez-Gonzalez, & Wolfenzon, 2007).

Despite many years of research, the process of founder succession is still not fully understood. With a 70% failure rate in transitioning a firm from the founder to the next leader in an organization, it has become obvious that our current understanding of the succession process is inadequate. The amount of literature describing succession is quite large, with the overwhelming balance of this literature being focused on corporate succession where the pattern of passing control from one leader to another is an already established practice. What is largely lacking are studies that delve into the first succession that an organization experiences, namely the founder succession. The primary reason for this dearth of data is that when a firm fails in a founder succession the data about that succession dies with the firm. With only a 30% success rate in founder transitions, the other 70% of the data about founder succession goes missing.

According to Beckhard and Dyer (1983) family controlled businesses accounted for 14.4 of the 15 million businesses in 1983. In the United States, 40% of the gross national product is produced by family controlled businesses (Beckhard & Dyer, 1983).

Lastly, the average life span of an organization, according to Beckhard and Dyer (1983), is approximately 24 years, which also happens to be the average time a founder leads a business. When a founder passes control to a second generation family member, only 3 out of 10 of the businesses survive (Beckhard & Dyer, 1983). The passing to a third generation is even worse (Pérez-González, 2006).

Any organization that exists for more than a few years eventually has to face the problem of changing the leader of the organization. The process of changing leaders is called succession. Succession happens in all forms of an organization. Corporations change CEO's, University Presidents retire, business are bought and sold, privately held firms pass from parent to children, and entrepreneurs pass the baton to professional managers. In other instances, succession happens without warning when the leader suddenly falls ill or dies. Yet, in some cases it occurs due to poor fiscal performance. In many cases, the succession event is planned due to retirement of the founder. Naveen (2006) offered that selecting a successor that aligns with the strategic direction of the organization and who can keep the organization moving forward after succession is one of the primary responsibilities of the current CEO and board of directors.

During the last years of the 20^{th} century and during the first 2 years of the 21^{st} century there was a surge of entrepreneurial activity in what became known as Internet startup companies. The general concept was to form a startup company that used the Internet as a central piece of the business plan for the organization, then to acquire a customer base, attract venture capital to sustain initial operations, and finally to go public with an initial public stock offering or IPO. The entrepreneurs in these Internet companies would often have an exit strategy that involved handing off the running of the company to a professional manager because they no longer wish to manage it (Burkart, Panunzi, & Shleifer, 2003). In most cases the exit strategy for the founder was to cash out of the organization for a profit.

Abrupt changes in leadership are rare and can be very disrupting to the organization (Rubenson & Gupta, 1996). This is particularly true when there was no plan for succession in place at the time of leadership change. The planned-for-succession is much more common and is much less disruptive. In fact, research has shown that a company's stock price is often positively affected by the transition of the company leader (Borokhovich, Brunarski, Donahue, & Harman, 2006). The rise in stock price is often seen as an anticipation of change in a company's strategy and direction by the new leader (Wasserman, 2003). It is the process of first succession from the founder to a non-family successor, often called founder succession that was the focus of this research.

Purpose of the Research

Even though the process of succession has been studied extensively, almost all of the studies have been about the transitions of organizations that already have an established process for succession (Wasserman, 2003). In large established organizations, the managers are often not the owners. Most of the research literature has been concerned with an agency perspective where the owner's interests are different from the managers. In these cases, the selection and process of the succession are concerned with ensuring that a successor's interests are aligned with the owners. In the case of a CEO-founder succession, the agency perspective does not apply as the founder often has a large percent (or all) of the controlling ownership interest in the company. This controlling ownership often allows the founder to set the pace and the circumstances for the succession process.

There have been very few studies about the process that a founder goes through in the initial succession. One of the problems in researching CEO-founder succession is that most of the organizations are not publicly held. Information about the succession process is held in private records and for those successions that fail, the records are lost with the closing of the business. With the large amount of investment capital that was lost when the Internet bubble burst and also due to the large number of family owned businesses that contribute a sizeable amount to the national GDP the process of the initial succession from CEO-founder's needs to better understood.

Even though the founder is the first leader of the organization, it does not mean that they have total control of the organization. In some cases, the founder is also the prime financer. In many cases, the founder needs external financial backing to fund the startup phase. When this is the case, the causes for succession can also be outside of the control of the founder. Rubenson and Gupta (1996) proposed a generalized contingency model for succession that included the possibility that the founder might be forced out and that the founder might also resist the succession.

In their model, Rubenson and Gupta (1996) articulate three major contingencies in the decision to proceed to succession. The first is whether the needs of the organization are changing. This can be because of a changing market place, the size of the firm, or the growth rate of the organization. Founders who are too busy attempting to generate revenue might not be giving enough attention to the actual management of the firm (Rea, 1973). The second factor is the ability of the founder to adapt to changes. Founders can face large challenges in delegating and to shifting to a more mundane management role (Kansikas, & Kuhmonen, 2008). Lastly, there is the ability of the founder to impede the succession. If they do indeed hold a controlling interest in the organization, they might be able to fend off a forced secession due to poor performance.

It was the purpose of this research to test the explanatory power of the original study by Rubenson and Gupta (1996) who used 54 Fortune 1000 companies as their sample target population for another target population which contains organizations that are much smaller in size. The original study data was found by researching the public records of 54 Fortune 1000 firms. For this study, the target population were organizations with between $5 to $200 million dollars in annual revenue and with 200 employees or less at the time of succession. The limiting values of $200 million and 200 employees are arbitrary in nature and only meant to limit the size of the target population to small organizations. Given the importance of the founder transition to the next organizational leader, the lack of information about the process due to the high number of failed successions and to the sheer number of small organizations that attempt to go through the process, it is the goal of this research study to better prepare the founder, the successor, and the board of directors of an organization for the succession process.

Research Questions

The following three questions are the core of this research proposal:

1) Is the contingency model of founder succession proposed by Rubenson and Gupta (1996) transferable to organizations of smaller size and lower revenues?
2) Were the founders of small sized organizations planning for their eventual succession?

3) What other factors came into play beyond those outlined by Rubenson and Gupta (1996) during the succession process?

Operational Definitions

This section provides some operational definitions used in this research study.

Founder: The person who starts an organization. According to Webster (1828), a founder is someone who establishes and erects or one who endows. Schein (2004) suggested that the founders have a critical effect in endowing an organization with its initial culture and beliefs. If there are two or more entrepreneurs involved in the creation of the organization, they are collectively referred to as founders.

Family Business: Many of the studies referenced in this proposal have differing operational definitions of what a family business is. Lam (2009) revealed that scholars have many conflicting views on how to properly define a family business. For the purposes of this study, a family business is described by utilizing Rosenblatt, de Mik, Anderson, and Johnson's (1985) definition that a family run business is one where a family owns a controlling interest in the business and one or more family members are involved in the management of the business.

Non-Family Member: For the purposes of this study the new leader of the organization would be a person that is not related to any member of the original founders of the organization. If the new leader does not have a substantial ownership position in the organization, they would be considered an outsider agent CEO and would fall under the definitions used by agency theory.

Insider versus Outsider: During the process of succession there are there are two areas that need clarification as to what is considered an insider versus an outsider. The first of which is the succession candidate. Insider succession candidates are individuals who have an existing relationship with the organization such that they are intimately known to the organization or have detailed insider knowledge of the organization before the succession process starts. Family members of a family run business would be considered insiders. The second area for clarification concerns the individuals who are involved in the decision making process for the succession. For larger organizations that have boards of directors, an outside director would be a person who is not appointed by the founder nor are they employed by the organization in any way. In many cases outside directors are brought onto the board by venture capital investors.

Succession: The process by which the head of a company transfers management control to another individual. Rubenson and Gupta (1996) defined succession as "The initial succession is defined as a contingent process that leads to the founder giving up control, whether to another family member or to 'professional' managers" (p. 21).

Importance of the Research

Understanding the succession process in small-sized organizations is important for three reasons. First, a substantial amount of the gross domestic product for the United States is produced from family run businesses (Sardeshmukh, 2007). If a business ends in bankruptcy and then decides to liquidate the firm under Chapter 7 of the bankruptcy law, the resulting fire sale of assets can substantially reduce the value of assets (Bris, Welch, & Ning, 2006). The employees are now unemployed and the business is no longer buying from other businesses.

Second, the failure rate of passing a business from the founder to the next generation is rather high. Only 3 out of 10 family owned businesses are successfully transferred to the second generation, the third transition is even worse (Weaver, 2008). When a public company fails, public records are available, which may be used by scholars, to determine the cause of the company's failure. When a business fails that is not publicly owned, as is the case in 8 out of 10 businesses in the United States (Sardeshmukh, 2007), the data about the business is lost to researchers. This means that 70% of the data concerning succession is inaccessible.

Third, the national average lifespan for a business is approximately 24 years. This coincidently is also the approximate time that a founder runs a business (Beckhard & Dyer, 1983). The majority of founder succession research is done with large public companies that have already proven their ability to process the event. In many studies, the research examines a company that has repeatedly gone through a succession. This study aims to contribute to the knowledge of what happens in the smaller business succession events to lengthen the life span of the small sized businesses.

Limitations of the Research

The original study and resulting contingency model proposed by Rubenson and Gupta (1996) was based on research conducted on Fortune 1000 businesses. As was previously noted the overwhelming number of businesses in the United States are smaller in size and usually family owned. There is extensive research for succession of large organizations but not smaller ones. This research project was limited to organizations that have 200 employees or less and that have had a founder transition in the past 5 years. All of the firms in this sample population were privately held organizations; and therefore were free from the normal SEC rules and regulations regarding corporate officer transitions. Thus, the behavior of the founders of much smaller firms was different from those in highly public firms. Additionally, the new target population is far larger than the original study by Rubenson and Gupta (1996). Issues concerning sampling size and sampling methods could introduce bias into the results. These biases might reduce the applicability of this research to large organizations.

Summary

The succession process as it has been previously studied has mostly dealt with the transition from one professional manager to another professional manager (Wasserman, 2003). In CEO-founder transitions there are different dynamics that affect the pace and outcomes of the transition process (Rubenson & Gupta, 1996). When a business that is not publicly owned goes through a founder transition the information about the transition is lost to researcher if the business then fails. Due to the high-risk nature of most IPO companies, the resulting economic losses, and the personal sacrifices of the people involved in the business, a better understanding of the processes involved is highly desirable. The objective of this research was to is to test the explanatory power of the Contingency Model of the Initial Succession by Rubenson and Gupta (1996) for a new target population so as to better understand the forces at work in these kinds of transitions and to hopefully provide a framework for future organizations to use in their succession planning.

Chapter 2: Literature Review

The purpose of this chapter is to review the current research literature on succession. The first section of this chapter will deal with the most commonly researched succession process, the hand off from one CEO to the next. The second section will then deal with the lesser-researched succession of organizational founder. Due to the large amount of succession research that has been conducted over the last 50 years and the dearth of founder studies , this review will just touch upon some of the areas of succession that have been studied.

General Succession Research

In 1994, Kesner and Sebora published a literature review of three decades, 1970-1990, of research studies. The review indicated a large increase (250%) in the number of published articles on succession. The authors felt this held both good and bad promise. The good news is that more interest would likely bring about more structure and precision to this area of research. Unfortunately due to the uncoordinated efforts of the research, conflicting results were being produced. Kesner and Sebora grouped the various studies into 11 areas of concentration:

- Studies on the origin of successors.
- How the size of an organization affected the rate of succession.
- How the rate of succession affected the post-succession performance of the organization.
- The various contingencies in order for succession to take place.
- The characteristics of successors.

- The succession process and how it is moderated by the board of directors.
- Studies dealing with how the market reacts to succession.
- How organizations plan for the succession process.
- Studies on the process of succession itself
- What the consequences are of the succession process.
- Matching successors to the needs of the organization.

As a follow on article, Giambatista, Rowe, and Riaz (2005) published another literature review that concentrated on the next 15 years of research. Giambatista et al. (2005) organized their literature into two major areas: research on antecedents and consequences. The sub-areas for antecedents were:

- How the board of directors affected the succession process.
- How pre-succession organizational performance affected the succession process.
- The characteristics of the leader who is being replaced.
- The characteristics of the organization prior to succession.
- Studies on the relevant variables regarding succession.
- How both environmental factors as well as industry trends affect the succession process.

As for the research on the consequences of succession, Giambatista et al. (2005) described the areas of research as focusing on the performance of sports teams, how succession affected business from both an accounting point of view as well as how the financial markets reacted to succession, and the affect succession had on both organizational strategy and organizational restructuring.

When Kesner and Sebora (1994) published their literature review, they concluded that there was at least three different perspectives in succession research: sociology, organizational behavior, and strategic. For the sociologists, the main concern was the transfer of power and the process of change. The organizational behaviorists focus on successions various stages, how individuals reacted to the stress of the process, and ways to manage the succession process. The last and largest body of research is from the strategy based researchers who analyzed succession from a market competitiveness perspective. It is because of the three different research perspectives and methodologies that Kesner and Sebora (1994) believed much of the conflicting research results are due.

Fancher (2007) asserted that the strategist portion of the succession literature, which has been primarily focused on publicly held corporations, uses archival data and quantitative methods in an attempt to link business practices with stock holder value and company profits. Fancher (2007) provided further detail by segmenting the research by organizational strategy, firm performance, organizational size, industry standards and regulatory changes, and CEO characteristics and demographics.

As an organization moves through the various stages of its life cycle, it changes in size and formality. Some researchers have suggested that as an organization increases in size, the more likely it is to engage in formal succession planning due to the availability of both internal candidates and increased resources (Sharma, Chrisman, and Chua, 2003; Shen & Cannella, 2002; Wasserman, 2003).

Firm performance, either as an antecedent (Zhang & Rajagopalan, 2003) or as a consequence, has often been tied to the succession process (Boyer & Ortiz-Molina, 2008; Fancher, 2007; Fanegan, 2010). Just as in other research on succession, there have been conflicting results on whether a firm will perform better (Tian, 2008) or worse (Bennedsen et al., 2007; Weaver, 2008) after a succession (Grossman, 2007). The choice between an insider and an outsider successor has also produced mixed performance results (Behn, Dawley, Riley, & Yan, 2006; Shen & Cannelia, 2002).

Kesner and Sebora (1994) felt that a CEO's turnover was inherently different from transitions at lower levels due the impact and symbolism it has on the organization. Due to the high profile nature of the succession event, it can trigger other events both inside and outside of the organization such as lowering or raising of the stock price, additional executive departures, or major shifts in strategic direction.

The first major systematic contributor to the research field of succession was Grusky (1959) who identified key variables in the process and actually tested the proposed hypotheses within his models. The work of Grusky and others during the 1960s was grouped into four categories by Kesner and Sebora (1994): successor origin, how organizational size impacted frequency, how frequency of succession affects firm performance, and the contingencies needed for succession to happen.

Successor Origins

It was the work of Carlson (1961) and Grusky (1964) that first pointed out the importance of successor origin and yet their studies came to opposing conclusions on organizational performance after the succession. Grusky's (1964) study on professional baseball teams found that choosing an organizational insider resulted in improved performance and that choosing an outsider resulted in little to no change in performance when the previous team manager was fired due to a poor win/loss record. Carlson's (1961) study of school superintendents indicated the reverse of Grusky's study. For

Carlson's 1961 study, an outside superintendent made more changes, had higher salaries, and achieved a greater level of status than insiders did. Kesner and Sebora (1994) attributed the differences in the results of Grusky (1964) and Carlson (1961) studies to the differences in both research methodologies and the dependent variables used in the studies. What Kesner and Sebora (1994) deemed to be more important was that Grusky and Carlson were the first to study the connection between succession and its affect on the organization.

During the 1970s, two new authors, Helmich with 13 articles and Pfeffier with 6 articles, concentrated on successor origin and succession frequency as their main research areas. Once again, the focus of successor origin seemed to be centered on insider versus outsider. The earlier groundwork that Carlson (1961) and Grusky (1964) had laid for both the definitions of an insider and an outsider was challenged by Birnbaum (1971) with his study on university presidents. For Birnbaum (1971), what was once considered an outside successor was really an insider if the successor had contextual or industry familiarity. If a successor was already trained in the processes and the culture of a similar institution, then even though they were technically not associated with the university they experienced less conflict and greater stability than those lacking the familiarity.

Helmich had five different studies in insider succession in the 1970s. His first in 1972 (Helmich & Brown, 1972) revealed that insider succession was positively associated with a lower rate of change after succession. In 1974, Helmich published two studies: one which showed an inverse relationship between organizational growth and insider succession (Helmich, 1974a) and another that indicated that successor origin was not dependent on either the predecessors tenure or firm performance (Helmich 1974b).

Helmich again published two studies in 1975. His first, Helmich (1975a) agreed with Carlson's (1961) study that inside successors were positively associated with lower rates of post-succession change. Helmich's (1975b) second study showed two positive relationships, the first was between an inside successor's tenure and the age of the organization, while the second was between age of the organization and percentage of insider successions.

In 1979, Allen, Panian, and Lotz published a study involving all major league baseball teams between 1920 and 1973. The authors' conclusions confirmed Grusky's (1964) result that outside successors were inversely related to higher post succession performance. Daum's (1975) study showed that a group was more likely to be dissatisfied with a new leader if they were promoted from within their group.

Outsider versus insider successor performance was studied again in 2010 but was limited this time to *Fortune* 500 companies (Fanegan, 2010). Examining the financial returns for these large companies who had a succession event between 2003 and 2005, Fanegan (2010) found no difference between the ability of an outsider CEO versus an insider CEO to influence post-succession financial outcomes.

According to Boyer and Ortiz-Molina (2008), the level of ownership that a CEO possesses has an effect on whether the successor will be an insider or an outsider. The authors reported that lower levels of ownership by the CEO increase the likelihood that an outsider will be appointed as the successor. Boyer and Ortiz-Molina (2008) also found that non-appointed managers were more likely to divest their ownership after succession as a precursor to departing the firm.

Firm Size and Succession Rate

During the early work of succession research, it was confirmed that the larger the size of the organization the higher the rate of successions (Grusky, 1961, 1964; Perrucci & Mannweiler, 1968; Trow 1961). In contrast to these findings, Gordon and Becker (1964) found that if gross sales or number of employees is used as the operational definition of size then no significant relationship is found between size and the rate of succession. Although there is general agreement on the positive relationship between size and the rate of succession, Kesner and Sebora (1994) attributed the differing results to the operational definitions used by the researchers.

When it comes to outside succession there is a much higher agreement among the researchers. Lauterbach, Vu, and Weisberg (1999) found that smaller firms have a smaller pool of resources to draw upon and therefore would have fewer outside successors than larger firms who would have additional resources to draw outside talent with. In another study about top management team replacements during turnarounds Barker, Patterson, and Mueller (2001) came to the same conclusion.

In a study by Rubenson and Gupta (1996), the authors argued that by remaining small, an entrepreneurial founder would be able to maximize their tenure without having to adapt to new organizational demands. Greiner (1972) indicated that by not adapting, an entrepreneur would someday face a leadership crisis that may precipitate the need for succession.

Smaller firm size does seem to be positively associated with choosing a family member as the successor rather than someone who is unrelated to the CEO (Bennedsen et al., 2007). One of the unfortunate findings for smaller firms is that data suggests that due to their size and concentration of ownership, power struggles appear to be more frequent during the succession process (Shen & Cannella, 2002).

Davila (2005) told us that for young organizations, one of the key development areas for overcoming the tension that is created by organizational growth is the adoption of management control systems. Typically, a founder is accustomed to managing a firm with personal controls and that formal management systems are deemed as unnecessary do the small size of the organization. Therefore, as long as the organization stays small, the number of personal interactions required on a daily is also small. Due to the growth of the organization, the number of personal interactions that are required to perform their daily activities increases to the point that formal management systems are required.

There also seems to be outside pressure from venture capitalist to introduce professional management practices to insure the continued growth of the organization. Venture capitalists provide more than just financial assistance, due to their relationships with other firms that are experiencing growth they can also bring management resources and knowledge to bear as a protective measure for their investment (Davila, 2005). The founder might need to be replaced if they are unable or unwilling to establish the formal systems that are require to maintain organizational growth.

Precursors to Succession

In an attempt to discover and quantify the events leading up to a succession researchers have studied many variables to see how they contribute to the process. There have been studies that focus on the extent to which the composition of the board of directors affects succession as well as how the organization is performing or the organizational culture. There have been studies that look at strategic reorientation, industry turbulence, and environmental factors as precursors.

Board of directors. Fancher (2007) offered, “A promising, and more recent, trend is the increase of interest in the role of the board to ensure ethical leadership considerations in the development and selection of the CEO“ (p. 24). In a 2006 study by Borokhovich et al. about how important the quality of the board of directors was in the event of a CEO’s sudden death, it was discovered that having an independent board was very important if there was an heir apparent. The authors found that even though a firm might have an independent board of directors, the board was often reticent to take action with a poorly performing CEO but would instead use the death of the CEO as an opportunity to make improvements in the management (Borokhovich et al., 2006).

The composition of the governing board of directors for an organization can have a significant effect on the succession process (Borokhovich et al., 2006). The board of directors can be characterized as either strong or weak as compared to the political strength of the founder, they can be either participative or non-participative, the number of directors can be either small or large, and the board can be composed entirely of insiders or they can be a large number of outsiders on the board. Each of these variations and combinations has been studied at one point to understand how they affect succession.

In recent years the role of the board of directors has become much more participative in nature (Kerr & Werther, 2008). For the purposes of this paper, a participative board shares leadership with inside directors, outside directors, and management. There are active discussions, debates, and disagreements. This recent trend towards more participative boards has been seen as a reaction to more vocal stockholders who are much more likely to hold the board responsible for financial results (Kerr & Werther, 2008). In previous years it was more common to have a board of directors that would be characterized as either weak or non-participative, one that was reluctant to intervene in the case of a poorly performing CEO due to their allegiance to the CEO that was active in their election as members to the board (Kesner & Sebora, 1994; Nelson, 2003).

Baker and Gompers (2003) found that when a firm was financed by venture capital the composition of the board of directors was more likely to contain both inside and outside board members. As was mentioned earlier, the CEO's power and tenure could be characterized as a negotiation between the CEO and the outside board members (Baker & Gompers, 2003). When the reputation of the venture capital is considered high, the power of the incumbent CEO was shown to be low since the venture capital firm was seen as having the ability to replace the founder (Baker & Gompers, 2003). In an earlier research paper on the power and politics of CEO succession by Ocasio (1994), the author found that during periods of poor economic times there was a higher rate of succession by insider board members as they were seen as more competent alternatives to outside successors.

Bommer and Ellstrand (1996) postulated that the inconclusive nature of the previous studies on CEO succession was primarily caused by limitations in sampling data. In the authors' own study of how CEO successor type effected the antecedents and consequences in 219 succession events, they found that if the age of the exiting CEO was younger than an expected retirement age then there was a inverse relationship between the number of insider board members and the likelihood of an outside successor.

Contrary to other researchers, Bommer and Ellstrand did not find a relationship between equity ownership and succession origin.

As a public response to unacceptable firm performance, the board of directors will often fire the incumbent CEO (Bommer & Ellstrand, 1996; Cannella & Lubatkin, 1993). It is during the process of choosing a successor that the board of directors is their most active (Zald, 1969).

How variations in board size affected replacements of the corporate presidency was studied by Helmich in 1980. Helmich’s study involved reviewing data from 54 industrial corporations over a 30-year period from 1947 to 1977. He found that there was an overall positive correlation between volatility in board size and succession rate of the presidency. Digging deeper, Helmich found that successful companies had a significantly inverse relationship between board size volatility and succession and a strong positive relation when the companies were unsuccessful.

In 1988, Weisbach conducted a research study with 367 U.S. publicly traded companies. The study probed the relationship between outsider controlled boards and CEO turnover due to poor performance. The results of the study indicated a strong negative relationship between the number of outside directors and the firm’s financial performance as measured by stock returns and earnings changes. Weisbach’s (1988) results were in line with the view that a company’s stock value can be increased by replacing bad management.

When the same issue of how the number outside directors influenced the replacement of the CEO was examined in 270 Japanese publicly traded companies, Kang and Shivdasani (1995) found no relationship to CEO turnover. Digging deeper, the authors found that non-routine CEO turnover was related to negative operating income, return on assets, and stock returns once the financial information was adjusted to industry expected norms. Additionally, the authors found that outsider succession was more likely if the firm had a large shareholder and had ties to a major bank.

Perry and Shivdasani (2005) studied the effect that boards of directors have on the performance of a firm during a restructuring effort. The results of studying 94 firms indicated that firms with a majority of outside directors were more likely to initiate a forced CEO turnover than firms with a majority of insider directors. Additionally, outside dominated firms were much more likely to initiate asset-restructuring, layoffs, and undertake cost cutting measures than to disciple the CEO by removal (Perry & Shivdasani, 2005). The authors felt that this might be explained as a last resort by the board.

Organizational performance. When it comes to organization performance as an antecedent for succession, one would think that there would be universal acceptance. Yet, again there are conflicting research results as the primary reason and conditions for replacing the leader of an organization. When researchers have concentrated on sports team, there seems to be agreement that a decrease in organizational performance is positively associated with initiating succession for the team manager (Warner, Watts, & Wruck, 1988). This inverse relationship was also found by Eitzen and Yetman (1972) in their study of 129 college baseball teams and also by Allen et al.'s 1979 study of baseball teams.

In an attempt to understand the inconsistent results of previous research studies on corporate performance and CEO turnover, Puffer and Weintrop (1991) investigated how performance expectations by the board of directors affected CEO succession. The authors argued that it was the expectations of the board that was the dominating factor in CEO turnovers. After reviewing 408 CEO turnovers that happened before retirement age and using stock market analyst's predictions as a surrogate for board expectations, it was found that when the expected earnings per share fell below expectations, a CEO turnover was a likely event.

In 2002, Dahya, McConnell, and Travlos reviewed the affect of the issuance of a U.K Code of Best Practice on the rate of CEO succession for underperforming firms. In the code it was recommended that at least three members of the board be outside directors and that the CEO should not also hold the office of chairman of the board. Although skeptical that the code would have an effect on CEO turnover the authors were surprised to see an increase in CEO turnovers for underperforming firms. The authors did offer a warning in that they did not see a strong relationship between turnovers and improved corporate performance.

Using publicly listed Chinese corporations from 1998 to 2002, Kato and Long (2006) found a statistically significant yet modest inverse relationship between CEO succession and firm performance. Further analysis disclosed that the relationship weakened if the firm was still under the control of the Chinese state. When the number of outside directors rises for these firms, the inverse link between performance and succession grows stronger.

In a 2006 study concerning the succession of busy outside directors, it was found that firms experience increased stock price after the director's departure (Fich & Shivdasani, 2006). The researchers found that boards where the directors hold two or more directorships with other boards were shown to have weaker profitability, lower book ratios, and a deceased likelihood of CEO succession with respect to firm performance. CEO turnover tied to firm performance in outsider-dominated boards with busy directors were indistinguishable from insider-dominated boards. The authors concluded that busy directors are associated with lower levels of corporate governance and hence lower levels of CEO succession.

Industry and Environmental Factors

CEO succession specific to the health care industry was studied by Wilson and Stranahan in 2000. The authors chose to use a multivariate quantitative methodology to discover which environmental factors were correlated to the succession of hospital CEOs. Using data from 846 U.S. hospitals that had a change in the CEO, the researchers found, in general, (a) smaller hospitals tend to have higher rates of CEO turnover than larger hospitals and (b) hospitals that offered more services also tended to have higher succession rates. After adjusting for factors such as the number of beds it was found that the higher rate of patients per type of service offered was also positively related to higher succession rates. The authors postulated that an increased breadth of services as well as the increased number of patients per service could be proxies for job complexity and thus was the underlying link with CEO succession (Wilson & Stranahan, 2000).

In a 2000 study about strategy reorientation as it relates to industry turbulence, Gordon, Stewart, Sweo, and Luker examined companies from both stable industries as well as from turbulent industries. The results from examining furniture and computer companies from 1987 to 1993 indicated that both CEO turnover and industry turbulence were positively associated precursors with changing the strategic direction of a company.

Surprisingly, the authors found that replacing the top management team was inversely related to reorientation of the company's strategic goals.

The issue of how environmental factors affect the rate of CEO succession was studied by Forbes, Manrakhan, and Banerjee in 2004. The researchers proposed three hypotheses concerning the rate of CEO turnover during periods of industry turbulence: (a) founders would experience lower turnover rates than non-founder CEOs, (b) CEOs with previous CEO experience would be protected from replacement., and (c) a CEO who was also the COB would also experience a lower rate of succession. One hundred twenty-seven Internet related companies were studied during the 2000 Internet crash. The results of their research bore out all three hypotheses. In general, poorly performing companies were more likely to replace the CEO during economic hardships. Being the founder, holder the role of CEO and COB, or having previous CEO experience was positively associated with lower rates of CEO turnover (Forbes et al., 2004).

Contingencies for Succession Success

As an indicator for post succession performance Kell and Carrott (2005) investigated how the culture of the organization influences the leadership style of a successor during a merger. The process of changing the culture of an organization during a leadership change can be monumental (Kell & Carrott, 2005). The authors found that if the two organizations had similar cultures, the process of merger and succession went smoothly; however, if the cultures were different, the process of consolidation and succession had a detrimental effect on the firm.

Zald (1965) found that the process of succession was a political one, a struggle for power between the board members and the chief executive. The ability of the successor to balance the competing claims for corporate resources and strategic direction is directly related to their post succession success.

Succession Planning

When researchers have investigated how organizations are planning for the process of succession they find that very few organizations actual do any planning at all (Brown & Coverley, 1999). Brown and Coverley (1999), in their study of family businesses found a positive correlation between the age of the incumbent CEO and the instigation of the planning process. Additionally, the authors found that CEOs in service related firms made no succession plans due to their belief that they, the CEO, were essential to the firms continued success.

Brady, Fulmer, and Helmich (1982) examined the expected tenure from the CEO's point of view. After reviewing the data from approximately 1,500 questionnaires, the authors concluded that only 50% of respondents engaged in any succession planning. Of those organizations that do have a succession plan, the board of directors actively directs the process only 18% of the time; the other 82% of the time the incumbent CEO drives the planning process. When a succession plan is in place there was little to no difference in the reported tenures between insider and outsider CEOs (Brady et al., 1982).

In a large-scale study by Naveen (2006) about how the CEO succession process is affected by human capital considerations, the author found that operational complexity was inversely related to outsider succession. The more complex a firm was, the greater the expense was needed to train an outside successor and thus the positive relationship between complexity and the planning for and grooming of an insider for succession.

Additionally the author found that succession planning for these complex organizations was positively related to voluntary successions.

In a study of 118 presidents or family firms, Sharma et al. (2003) evaluated how the process of planning for succession was influenced by three factors: the commitment of the presidents family to the business, the predisposition of a trusted successor to assert themselves, and the desire by the incumbent to have the business stay in the family. The results of the research revealed that a trusted successor could significantly impact the succession planning process. In such cases the authors conclude that a trusted successor rather than the incumbent may be driving the process, which can have negative implications for the family firm.

According to Tung-Chun (1999), traditional Chinese businesses are known for their informal organizational structure, emphasis on trusted personal relationships known as guanxi, top down management decision making, and lack of a formal succession plan. In an attempt to assess the acceptance of formal succession planning in rapidly growing firms, 166 Taiwanese companies were surveyed as to the extent of formal succession plans and also as to the reasons that might deter formal planning. The results indicated that 65% of the respondent companies had formal plans as contrasted to a recent study of U.S. firms that indicated a 93% adoption (Tung-Chun, 1999). Of the 166 firms, approximately 63% were Taiwanese owned with the remainder being American or Japanese owned. The number one reason that was cited by those firms not having a formal succession plan was that a plan would negatively affect the business. Tung-Chun expressed that this was most likely a result of the way that Taiwanese owners had based their businesses on personal relationships (guanxi). Once a Taiwanese firm had achieved a size of 1,000 or more employees, they were 50% more likely to have a succession plan than those firms with less than 300 employees. This positive relationship between firm size and succession planning was explained by the author as being a result of smaller firms not wanting to introduce disharmony between co-workers when one is groomed for a higher position.

Consequences of Succession (Non-market Related)

Succession events can have profound effects on the remaining employees: their productivity, their willingness to follow the new leaders, and for some a sense of loss from the change event. With the founder establishing the social norms for the organization and imbuing it with its sense of culture, the succession of founder can seem as though the organization is undergoing dramatic change.

Despite 40 years of research there is still no clear indicator of whether or not employees will see either a drop or an increase in their productivity after a succession (Ballinger & Schoorman, 2007). Ballinger and Schoorman (2007) believed this is because researchers have not taken into account how political the succession was, what level of expertise the successor has, whether the new leader was in insider or an outsider, the timing in relationship to internal projects, and to what extent the new leader might change the management team. With so many variables in play during a succession, the productivity of any one employee might be very different from another employee.

One of the big factors for a successor is willingness of the organization to follow the new leader. Byrne (1998) did a research study investigating the relationship between organizational commitment, employee’s perceptions of competence, and leadership style in small businesses. The author found that higher organizational commitment was positively correlated with higher perceived credibility of the successor. Taking time before and during the succession process to establish credibility will help to maintain if not improve organizational commitment (Byrne, 1998). Additionally, the author found that the more that a successor understood and was knowledgeable in their business, the higher the level of employee commitment to the organization.

Organizational identity is defined by the founder. Their departure can be of great concern to the employees that are left behind. In a study by Balser and Carmin (2009), succession is examined from the employee's point of view concerning the organization's identity. The authors found that succession can uncover undisclosed disagreements about the organization's mission and identity. Conflicts over identity can lead to considerable disruption to the organization's activities and successors need to pay attention to the shared values and views of that identity.

In a 2007 study on intra-industry succession, Grossman found that hiring executives who had spent a large amount of their career working for a rival firm in the same industry were more likely to make significant organizational changes sooner than executives from outside of the industry. Senior executives often acquire tacit industry knowledge that allows them to respond quicker than executives from other industries. A warning that Grossman (2007) gave was that using succession as a competitive advantage tool to obtain tacit information can lead to similar company strategies. One benefit from using succession as a way to gain access to the knowledge of a rival is that the successor will be able to come into the firm with high levels of legitimacy and power (Grossman, 2007).

Miller (1993) reported in his study of 36 mostly large US companies that succession is linked to a wide variety of changes in an organization. Apparently new CEO's were more likely (a) to process more information than their predecessors when the organization had been experiencing poor performance and (b) to distribute authority (Miller, 1993). It was the multidimensional changes by the successors that the author attributed to what he felt were breaks in the momentum of the organization. If the previous strategies were adaptive and congruent to current environment, Miller (1993) felt that the changes might do more harm than good.

Another study surrounding the succession event was one that considered how much discretion the incoming CEO had over changes in various financial variables (Murphy & Zimmerman, 1993). The authors found that incoming CEOs of poorly performing firms had greater discretion and found no evidence of managerial discretion when the outgoing CEOs firm was performing strongly.

In a study that reexamined the data from a previous research study, Gordon et al. (2000) sought to understand how a firm's strategy was affected by industry turbulence. The sample population was from two very different industries: 75 firms from the very turbulent computer software industry and 45 firms from the very stable furniture industry for a total of 120 firms. Using improved statistical analysis the authors concluded that strategic re-orientation was positively associated with CEO turnover and industry turbulence. These results were in contrast to the previous study by Lant, Miliken, and Batra (1992) who proposed that strategic re-orientation was positively associated with awareness of environmental changes, previous poor financial performance, and top management team heterogeneity. In fact, the new authors indicated that strategic reorientation was negatively related to top management turnover.

In another study on how strategy relates to CEO turnover, Casamatta and Guembel (2010) explored how the legacy of the firm's strategy can determine strategic change, turnover, and CEO compensation. Their results indicated that a board may allow a CEO to be entrenched due three factors; the expense of replacing the incumbent, a desire to continue the current corporate strategy, and that the continued firm performance can only be partially attributed to a successor. If, however, the board of directors has deemed that a change in corporate strategy is warranted, Casamatta and Guembel (2010) asserted that their findings indicated that replacing the CEO was pivotal to ensuring the new strategy took hold. The authors argued that an entrenched incumbent CEO would have a vested interest in seeing the new strategy fail.

Sport Team Performance

Succession studies of athletic teams are particularly attractive as performance is easily gauged by wins and losses. Professional sports by definition are publicly documented and are numerically tracked on many levels so as to make analysis much easier than private equity firms.

Gamson and Scotch (1964) conducted a study on baseball team and found that their measurement of the rate of successions of baseball team managers did not adversely affect post succession performance. Trow's (1961) study showed the same results but did find that if the rate of succession varied then there was an inverse relationship. Grusky in 1963 performed additional research on baseball team managers and the variability succession rate; Grusky's conclusions were similar to Trow's (1961).

Using data from the National Hockey League that spanned 60 years, Glenn Rowea, Cannella, Rankin, and Gorman (2005) confirmed previous studies that indicated that changing the general manager of a hockey team in mid season, what the authors termed as a ritual scapegoating, will result in a decrease in team performance. Glenn Rowea et al. argued that it takes time for a manager to take charge of a team and that the optimal time for a manager succession to take place is between seasons. The authors also noted an increased level of performance was obtained after the new general manager and the team undergo a playoff together. Little if any performance gains achieved during the first season together were to be expected as the new manager and team define a working relationship.

Although the effects of management change for a sport team has been studied many times, Wagner (2010) decided to see how environmental changes moderated the effects of the succession. Using data from a national German soccer league that spanned 39 seasons, 48 teams, and 281 different managers, Wagner sought to understand how changing one of the major rules of the game would affect team management turnover. In 1995, winning soccer teams were awarded three points for a win versus the previous two in league standings. As a result, there was increased pressure for a soccer coach and team to perform as the value of a win versus a tie or loss now had increased value. The author found that after the introduction of three-point rule in the period of 1995 to 2003, there was a significantly higher level of coach turnovers as compared to the two-point era of 1963 to 1994. Given the high pay off for a win, Wagner felt this was sufficient to explain the higher average scores in the 1995-2003 seasons versus the 1963 to 1995 seasons.

Business Performance

As Grusky pointed out in his 1960 study on succession, succession is a very disruptive event in the life of an organization. What is often on the minds of those involved in the succession is how a company will perform under the new leadership.

Weisbach (1995) studied the consequences of succession in 172 firms between 1971 and 1982 as that related to poorly performing divisions within a company. The results of the study indicated a positive relationship between management turnover and the divestiture of a division that the press considered to be performing poorly. The author believed his research coincided with prior agency theory studies where it was postulated that turnovers were important public events in the life of a corporation. Agency theory suggests that management successions can lead to the reversal of previous poor decisions (Weisbach, 1995).

Shen and Cannelia (2002) found in their study involving 228 firms that had recently undergone a CEO succession that many factors affected the successor's performance. In particular, their study indicated a positive relationship between senior management turnover with a contentious successor and improved financial performance, as measured by return on assets (Shen & Cannelia, 2002).

Succession can have either a positive or a negative effect on the stock price of a public company. In the case of the founder's death where there is no apparent successor and the firm is performing poorly, having an independent board has been shown to have a positive effect on stock price (Borokhovich et al., 2006).

In an earlier study by Borokhovich, Parrino, and Trapani (1996), the authors showed that shareholders benefited from succession announcements when an outsider was appointed to the CEO position. However, the authors also found that the shareholders suffered when the replacement CEO was an insider after the previous CEO was fired.

In an attempt to understand the equivocal results of previous research studies on board composition and firm performance, Combs, Ketchen, Perryman, and Donahue (2007) examined stock market reaction to the deaths of 73 CEOs. Their research indicated that a CEO's power as measured by the percentage of equity owned and the CEO's position as COB mitigated the strength of the board of directors. The demise of a powerful CEO was often greeted with relief when the board of directors was not independent enough to keep the CEO from making self serving decisions or when an outside dominated board controlled the actions of a weak CEO (Combs et al., 2007). Stock prices increased after the announcements of the deaths of powerful CEOs with insider dominated boards and also fell when a powerful CEO died who had served with an outsider dominated board.

Stock market reactions were used as a measurement of firm benefit from the firing of key executives in publicly traded companies by Worrell, Davidson, and Glascock (1993). The researchers examined the reactions of investors to the turnover announcements from 1963 to 1987 and found a positive association between stock market valuations and the succession announcements. Additionally, the positive market reaction happened immediately for outsider successions while investors took a more wait and see attitude for insider successions.

Looking into 367 executive announcements during 1986 in Fortune 500 firms, Davidson, Worrell, and Cheng (1990) studied the effect to those announcements in terms of stock market reactions. The authors found that overall the market reacted in a strong positive manner to the announcements. Differences were found however in the successors' origin, age at the time of appointment, and their previous position within the firm. According to the authors, revealing the conditions under which the appointment was made is very important in terms of stock market reaction.

In another study on the effects of stocker holder wealth in large firms when CEO succession occurs during bankruptcy, Davidson, Worrell, and Dutia (1993) found positive abnormal returns associated with the announcements. In particular, the announcement of an outsider succession candidate was more favorably responded to by higher stock value than for candidates that were considered insiders. The researchers also found that outsider CEOs were more likely to be appointed around bankruptcy events than insiders under normal succession.

Frequency of Succession

Greiner, Cummings, and Bhambri (2003) offered that the rate of CEO successions has risen steadily over recent years. By 2003, the average tenure of a Fortune 500 CEO had drop to 7.5 years from 9.5 years in 1995 (Greiner et al., 2003). Citing earlier research, the authors indicated that new CEO were often under immediate pressure by the board of directors to produce improved financial results by making major organizational changes. The vast majority of these new CEOs are rarely successful and thus repeat the cycle of CEO turnover.

In a study published in 1997, Lauterbach and Weisberg compared the appointments of 418 CEOs in US companies from 1978-1979 to 1989-1991. The authors found that over time the frequency of external or outsider successions had increased due to the external pressures during the 1980s from hostile takeovers and corporate raiders. They speculated that these pressures increased the likelihood of a board of directors taking bold steps such as seeking and outsider for the CEO position to save an underperforming firm. In their research paper Lauterbach and Weisberg (1997) proposed that firms with poor past performance, are smaller in size, and with more vacant top positions will more frequently appoint an outsider to the CEO position than an insider.

Contrary to other studies, Huson, Parrino, and Starks (2001) found that even though the frequency of forced CEO turnover and outsider CEO succession had both increased, their results did not indicate an increased sensitivity by the board of directors to firm performance as the reason for the turnovers. The authors examined 24 years of financial data extracted from the Forbes annual compensation surveys from 1971 to 1994. During this time, 946 successions involving 486 were examined for changes in internal governance mechanisms. What was revealed in the data was a significant positive relationship between the number of outside board members, the percentage of stock ownership by directors or officers other than the CEO, and the likelihood of an outsider succession accompanied by a forced CEO turnover (Huson et al., 2001).

In the 1996 study by Borokhovich et al. on outsider CEO frequency, a strong monotonic relationship was discovered between outsider succession and the percentage of outside directors. Using data from 969 successions occurring between 1970 and 1988 at 588 large public firms, the authors found that when a CEO is forced it is four times more likely that the successor will be from an outside firm

Matching Successors to Organizational Needs

A successor's organizational strategic fit, demographics, leadership characteristics, and industry experience have also been the subject of many research studies (Fancher, 2007; Giambatista et al., 2005; Shen & Cannelia, 2002; Tian, 2008). Shen and Cannelia (2002) wrote that an outsider CEO has a greater chance of dismissal after disappointing financial returns due to their power base and social networks within a firm. Phan and Lee (1995) discovered that CEO's who had having personal prestige and who also occupied the office of Chairman had a lower probability of replacement than being a firm insider. In a study by Ocasio and Kim (1999), the backgrounds of 275 new CEOs were studied and the authors discovered a demographic trend away from CEOs whose careers were dominated by financial experience towards those CEO's that have more operational and technical experience.

Family Succession

As of 2000, at least 8 out of 10 businesses in the United States were family owned and 50% of the gross domestic product of the United States came from these same business (Sardeshmukh, 2007). With only 30% of businesses successfully transitioning from the first generation to the second and the second to the third only achieving a success rate of 10%, the effect of failed family businesses is substantial (Weaver, 2008). According to Kansikas and Kuhmonen (2008), the founder of a small business will often involve their family members in its operations. When the day finally comes that the founder decides to transition the firm to the next generation, they must make the additional decisions as to how the transition will occur.

In a 2006 study on inherited control and firm performance by Pérez-Gonzalez, the author reported that firms whose successor was as a blood relative of the founder, were related to the founder by marriage, or were a large shareholder in the firm performed at a lower level than those successors who were not related to the founder. The author's conclusion was that nepotism ultimately hurts a firm's financial performance by not utilizing the full scope of the available labor market. In general, it was found that underperforming firms did not have a successor CEO that had attended one of the more selective universities.

In a research paper on the role of families in succession decisions and performance inside the family firm, Bennedsen et al., (2007) found that family successors underperformed as compared to nonfamily CEOs. The authors emphasized that the underperformance was very evident when the family firm was large, had a highly skilled labor force, or was in a fast growing industry. Another interesting result of the study was that the family firms were more likely to pass CEO control to first child-males than first-child females. Additionally, Bennedsen et al., (2007) confirmed the findings of Bertrand, Johnson, Samphantharak, and Schoar (2008) in that the decision to appoint a family member as the new CEO was influenced by the size of the family and the current CEO's marital history.

Founder Studies

Schein (2004) asserted that founders have a major influence on how an organization forms its early culture. Bolman and Deal (2008) also told us that founders could have a dramatic influence on an organization. One the most disruptive events for a firm is the process of succession (Grusky, 1960). Yet there is a surprisingly modest amount of research on the succession of the founder (Wasserman, 2003).

Retirement is by far the most common motive for succession. Given that over 80% of the businesses in the United States are family owned (Sardeshmukh, 2007), the vast majority of the succession process is involved in passing control of the family firm to the next generation. Issues of business continuity and the transition process then become very important. Succession planning can be an important tool for increasing both short and long term continuity in leadership (Richards, 2009). Collins (2001) also talked about how the great companies developed strong and deep executive teams that allowed an organization to succeed even after the founder-genius left the company. According to Richards (2009), “Having depth in all levels of leadership positions allows for the continuity of business operations by offering consistency of organizational mission and culture even during personnel transitions” (p. 1).

In 1990, Handler proposed a four-phase process for succession in family firms. The first phase is where the founder is running the firm as the sole executive. The next phase is entered as the founder’s role is diminished either due to health issues or in order to make room for the next generation. In the third phase, the founder delegates more and more responsibility to the other family members. In the last phase, the next generation has take control of the day to day operation of the firm and the founder has either entered retirement or acts as a consultant to the family firm.

At some point in the process the founder has to decide if the successor will be a family member, an outside hired president, or if they will simply sell the family business. If there will be a transfer of control to a family member then many questions arise as to what the best financial strategy would be to handle the transfer, a gift, an outright sale, or annuity trust (Parrish, 2009). Given the possible tax burdens and financial strain that a transfer can cause, proper planning is required in order to prevent a failed transfer.

Gompers (1994) explained that in 1979, an amendment was made to the Employee Retirement and Income Act (ERISA), which allowed financial institutions that were managing employee retirement funds to invest in new venture funding companies:

> The 1979 change explicitly allowed fund managers to invest up to 10%o f their capital in venture funds. Pension fund commitments to venture capital rose dramatically increasing annual new contributions to venture capital funds from $100-200 [million] during the 1970s to in excess of $4 billion by the end of the 1980s. (p. 2)

This new wave of capital was a game changer in the way that entrepreneurs structured their firms for an initial public offering. Of particular note was the rise in the number of high tech companies that were formed in the San Francisco area during the 1990s, which in time would be called the Dot-Com boom. A typical entrepreneur would have an exit strategy that involved cashing out a portion of their stock once the company passed its initial public offering and handing over control to a professional manager. In these cases the founder succession was an integral part of the business plan for the company from the very beginning.

Despite the foreknowledge that no one lives forever, most organizations do not have a succession plan in place (Brown & Coverley, 1999; Carey & Ogden, 2000). As a result, the organization is thrown into chaos when the founder unexpectedly passes away or is incapacitated by an illness or accident. It is during these times that the quality of the board of directors is key to survival of the organization (Behn et al., 2006). Of those organizations that do not have a plan in place, less than 25% survive after the death of the founder (Bowes, 1991).

The moment that an organization is funded by someone other than the founder, the founder immediately comes under pressure to perform financially. Operating capital can be raised by either friends and family members of the founder or by outside investment. The most common form of outside capital is in the form of venture capital. Venture capitalists as a general rule are more likely to place outsiders on the board of directors. The power structure within the organization then becomes a negotiation between the CEO and the outside board members (Baker & Gompers, 2003). Additionally, the founder's tenure is also weighed against the founder's financial performance as CEO.

Vancil (1987) informed us that as a senior executive rises through the ranks they develop a strong desire to become the CEO. The office of the CEO has many benefits concerning both material rewards and privilege. If an aspiring executive wishes to become the CEO they must prove themselves worthy of the role, either to the founder or to the outside board members that a venture capital firm might bring in. Unfortunately when a CEO is performing badly and is being considered for removal, the entire senior management team is also considered for removal as well. As a result, senior executives might find it to their benefit to challenge the company founder as a way to gain support from the outside board members (Shen & Cannella, 2002). Even if the senior executives are not interested in staying with their current firm but are instead looking to the external market as their next career move, the senior executives know they will be evaluated in part by the financial performance of their current employer. Once again this will have a motivating influence for the senior executives to maintain their reputations and challenge the founder as a way to improve the organizations financial returns (Shen & Cannella, 2002).

Founders are Different From Other CEOs

Mintzberg (1973) explained that most entrepreneurs have personal characteristics that are best suited for startup organizations where uncertainty reigns. Unfortunately these same characteristics are not well suited for the management of large stable organizations. The primary factor that limits the ability of an entrepreneur from transitioning into a managerial role is the establishment of personnel control systems. Most entrepreneurial organizations tend to be small where everyone reports to the founder (Mintzberg, 1973). Founders have a vision for their organization and where they want to lead it. Given that most startup organizations are small in nature, communicating that vision so that the first employees embrace it is easily handled by the founder. With a small span of control leadership in the form of the founders own charisma or promised payoff for the new company is enough to embed a sense of culture into the organization such that personnel control systems are not needed (Davila, 2005). According to Rubenson and Gupta (1996) one of the major causes for founder succession is that the founder was unable to grow into the role of a general manager. It is only after the founder's succession that the necessary control systems are finally put in place. According to Greiner (1998), "The founders often resist stepping aside, even though they are probably temperamentally unsuited to the job" (p. 61).

Founders also differ from their general manager successors in the amount of ownership they control. In a "Top 500" survey done by *Inc. Magazine* of private firms, it was found that 75% of the ownership in these successful firms was personally held by 57% of the founders (Nelson, 2003). In recent research paper by Miller, Le Breton-Miller, and Lester (2011), lone founder ownership was associated with entrepreneurial growth strategies and higher shareholder returns while firms that a lead family held shareholder majority only had average returns. The net effect is that founders who have majority control behave differently than next generation managers.

Since there is no organizational culture until the founders declare it, they have a profound effect on how the culture is first formed (Robins & Judge, 2008). Founders imprint their organizations by the early decisions they make regarding the strategy, initial structure, and culture (Nelson, 2003). What a founder pays attention to and values will become imbedded as the core set of value for the organization (Schein, 1983). The very act of founding is to establish behavioral norms and practices. These behaviors are then passed on to each new employee until they start to take on a life of their own. Even the way that a founder designs the physical workspaces can have an effect on the culture of the organization (Schein, 1983).

For most founders, their current organization is their first attempt at entrepreneurship. In Europe, only 18% to 30% of entrepreneurs have experience exiting an organization and starting another one; for the United States the percentage is approximately 12% (Plehn-Dujowich, 2010). Given the low transition numbers, it is often only when venture capital is introduced to the organization that experience in replacing the founder can be found. The ability of the venture capital firm to offer not only financial resources but also the ability to offer an alternative CEO candidate to the founder is a major factor in the venture firm's ability to affect succession.

Sonnenfeld (1988) proposed that a CEO often takes on a role that is something akin to a mythic hero in the culture of the organization that they lead. For those who join the organization after it has had some level of success, the founder is seen as the one who blazed the trail. In stories that are told after many years and many battles have been won the founders are often held in an elevated view (Sonnenfeld, 1988).

Why Replace the Founder

Despite many years of study, the question of whether to replace the founder at some point has not been definitively settled. There are many authors who believe that the founder has served their purpose once the organization achieves a particular level of maturity (Boeker, & Wiltbank, 2005; Churchill & Lewis, 1983; DeTienne, 2010; Hofer & Charan, 1984). While others believe that the founder should stay on as a consultant as long as they can continue to contribute to the organization (Nelson, 2003). According to Davila (2005), replacing the founder is a major step in moving an organization forward from an organization that is based on personal and informal processes towards one that has more formal processes. It is the professional manager that will seek the more formal operating systems that a growing organization needs (Davila, 2005).

Examining the succession events in 108 firms from 1960 to 1990, Ocasio (1999) sought to understand how a board of directors decides what the succession process will be. After reviewing a total of 216 succession events, the author found that there is considerable inertia for a board to follow previous succession processes. This process inertia enabled the board’s ability to make a decision but it also restricted is decision abilities as well. Citing strong empirical evidence Ocasio (1999) went on to say that boards rely heavily on any formal process that already exists for the succession process.

The study also revealed that if a formal succession process already existed then there was a positive association with an insider succession. When there was no formal process in place such as when the founder is replaced, then lower levels of insider succession were observed (Ocasio, 1999).

Focusing on the biotechnology industry in 2008, Dr. Jun Li looked at 90 U.S. companies that had completed IPOs between 1991 and 1999 in a study that examined the amount of organizational restructuring before the IPO's were completed. In particular, the author studied the top management team's tenure, the percentage of organizational founders in the top management team, and the extent that the top management team had functional heterogeneity. The results of the study showed an overall negative association between all three of the variables. When the percentage of founders' variable was examined independently the author found a positive association with succession during periods of high growth. Li (2008) felt that this result had confirmed Rubenson and Gupta's (1992) earlier research showing that a founder often does not adapt quick enough to the new demands of a quickly growing company.

The chief executive sets the policies and procedures of an organization, they communicate with the board of directors, and generally set the agenda for the entire organization (Borokhovich et al., 2006). If the firm has been performing poorly of late, a change in management can be seen as a corrective action that is being taken by the board to move the firm in a new direction. Borokhovich et al. (2006) informed us that investors react positively and generally benefit when a new outside CEO is appointed. Shen and Cannella (2003) also confirmed that the hiring of an outside CEO is preferred by the equity markets than the appointment of an insider to the CEO position.

In a study on how top management team turnover affected an organization's ability to complete an IPO, Beckman, Burton, and O'Reilly (2007) reviewed the data from 161independent private high-technology pre-IPO firms in California's Silicon Valley. The researchers found that having a top management team with a wide variety of previous company associations as well as varied functional experiences positively correlated with the likelihood of completing an IPO. Losing an experienced top management team due to turnover was also shown to reduce the likelihood of IPO completion. Additionally, it was found that founder exits increased the likelihood of IPO completion.

Due to the ethical issues raised by the business scandals that have been reported in the recent press, Leone and Liu (2010) researched the question of whether or not being the founder of organization affected the decision to fire the CEO after accounting irregularities were disclosed. Using data from 96 newly formed companies that had reported accounting irregularities or fraud in their financial re-statements and a control group of similar companies, the authors found a dramatic difference in CEO turnover rate if the CEO was also the founder. Founders were replaced 29% of the time as compared to 49% for non-founder CEOs. Leone and Liu (2010) concluded that a founder was much more likely to entrench themselves in the organization and to shift blame to the CFO for the irregularities. Additionally, directors of founder led companies were less likely to initiate an internal investigation than non-founder led companies.

Various Succession Models

The succession process can be instigated by many causes: the death or illness of the founder, a change in the needs of the organization, financial pressures, a forced outing by the board of directors or a majority of the shareholders, there may be some sort of social scandal, a legal complication, or it may be a planned succession because of retirement. No matter how the succession process is started, it can be classified as either voluntary or involuntary. In the case of a voluntary succession the process can be considered a rational, might well thought out co-operative process.

Mythic heroes. Sonnenfeld (1988) told us that however subtle or explicit the self-imaged hero role might be, the leader is very often reluctant to say farewell to this role and to retire. Two of the four styles of departure that Sonnenfeld (1988) described fall into the voluntary category, namely the *ambassador* and the *governor* styles. While the departure style of the *general* and the *monarch* fall into the involuntary category.

Ambassador leaders co-operate in the transition of power to the new leader, but they also take an active role in the organization while still supporting their successor. Ambassadors often will take a role on the board of directors but not as the chairman as they still feel that they can contribute to the organization. Sonnenfeld's (1988) governor style is known for leaving their firm cleanly and effectively severing all ties to the organization. For a governor, the heroic mission that they pursued while leading the organization is tempered by their realization that they can experience this same heroic status in a new organization. Thus they have a tendency to look to new opportunities and adventures in new organizations.

It is the heroic self-image that can act as an exit barrier for the CEO to let go of their leadership position (Sonnenfeld, 1988). Both of Sonnenfeld's monarch and general styles of departure fall into the involuntary category of succession. Monarch's either die in office or are unwillingly forced from office in an overthrow. The monarch never sees a need for themselves to retire. Of the four styles, the monarch is the least likely to groom a candidate for succession. By contrast the general's style of departure is to reluctantly agree to leave office but then they will mount a campaign to allow them to return to office. It is a strong desire to establish a lasting legacy that keeps a general from completely retiring. Over 90% of generals maintained a position in the organization from which they retired. Often this position was used as a way to secure a path back into leadership if they could.

Relay race. Once a firm has gotten past the initial succession the process of repeating, it can be built into the practices and culture of the organization. The overwhelming amount of research literature on CEO succession is based on firms that have successfully transferred power a number of times. As such the process can become much more formalized and analogies to other transfers of control can be drawn. One such analogy is the concept of two runners passing a baton in a race.

For Vancil (1987), whose research falls firmly into the voluntary category, succession is best described as the aforementioned relay race. The process starts off when a candidate is named the heir apparent by their being promoted to the role of president. During a period that can last for several years, the chairman of the board whom also holds the title of CEO and the president run the organization together. During the transition period, the two leaders act as relay partners in a relay race where a baton is passed from one runner to the next. Vancil (1987) also described some situations where there can be more than one candidate for the succession. In these cases the candidates share responsibilities and compete with one another for the final role of CEO.

As time goes by, more and more of the duties of the CEO are passed to the president until they are formally named as CEO. Again this dual mode of organizational leadership can last for several years. When the chairman of the board finally passes his or her role to the CEO, the succession is then said to be complete. The process of succession will be started again when the CEO names a new president as the heir apparent. This relay model of succession can have set backs if the candidate does not live up to expectations during their tenure as either a president or as the CEO, in which case the succession process may begin again with a new candidate.

Maximizing financial gain. For some leaders the act of succession is based on maximizing their personal gain, whether that is in monetary or non-monetary ways (Burkart et al., 2003). Leaders of a family run businesses are in the unique position of deciding whether to pass control to a family member or to hire an outsider to run the firm. In making the decision to pass control the founder has to decide who would be a better manager. Unfortunately for the founder who is passing control to a family member, research has that family members produce lower financial returns than non-family members (Morck, Stangeland, & Yeung, 2000; Pérez-Gonzales, 2006). What may outweigh the financial decision is a how much non-monetary benefit the founder might enjoy by keeping the business in the family or by maintaining the family name with the organization. Examples of non-monetary benefit could be political or social as in ownership of newspapers or sports teams. Another aspect of family owned businesses is to decide at the time of succession, how much equity they are willing to disperse in the process of funding their retirement. Such dispersal will have an effect of subsequent leadership successions.

A contingency model for succession. Knowing that succession is inevitable, using a mixed methods research methodology Rubenson and Gupta (1996) developed a contingency model for the initial or founder succession. The authors based their model on the idea that an organization should assess the ongoing utility of the current leader. Fundamentally, there are three sequential decision points in the model. First, is whether or not the needs of the organization have or will soon change. Second, does the founder have the capability or even the desire to change so that they can adapt to the new needs of the organization? Lastly, if the founder is unwilling to change can they impede the succession process. Each of these three major contingency points are then moderated of a number of sub-factors such as: the size of firm, the turbulence of the industry, the percentage of equity owned by the founder, the number of outside board members, and the amount of general management experience of the founder.

As many the of previously cited authors have said the needs of an organization will change over time and the top management of the organization has to adapt to those changes. Rubenson and Gupta's (1996) model is proposed as a method for an organization to decide if it is time to cause the early succession of the founder. In their research the authors enumerated 12 sub-factors and made predictions about each:

1. There will be a negative association between organizational size and tenure of the founder.
2. There will be a negative association between the firm's growth rate and tenure of the founder.
3. There will be a negative association between the extension of the product line and tenure of the founder.

4. There will be a positive association between educational level and tenure of the founder.
5. Assuming that the founder is younger than 55, there will be a positive association between the amount of general management experience the founder has had before founding the venture and tenure of the founder.
6. There will be a positive association between the diversity of functional experiences the founder has before founding the venture and tenure of the founder.
7. There will be a positive association between the amount of relevant industry and tenure of the founder.
8. There will be a negative association between the dispersion of ownership and tenure of the founder.
9. There will be a negative association between the amount of outside board members and tenure of the founder.
10. There will be a positive association between a policy of promotion from within and tenure of the founder.
11. There will be a positive association between a family dominated culture and tenure of the founder.
12. There will be a negative association between industry turbulence and tenure of the founder.

If the needs of an organization changed slowly enough, Rubenson and Grupta (1996) believed that a founder might have enough time to adapt. In a previous study by the authors (Rubenson & Gupta, 1992) involving 54 Fortune 1000 firms, the data revealed that the tenures of founders was twice as long for slowing growing firms as for firms that experienced rapid growth. Additionally, the study revealed that firms with a family dominated culture had founders with significantly longer tenures than non-family dominated firms.

In their 1996 paper, Rubenson and Gupta called for research studies to empirically test the validity of their model on smaller firms; the original data used to form the model was from Fortune 1000 firms. They felt that in particular new research might help family run firms to make better decisions concerning the succession process.

Summary

The amount of research literature on succession that has been published in the past 50 years has been substantial. In the interests of brevity, this chapter has touched upon a few of the area’s concerning CEO succession and then focused down on succession literature concerning the founder. Due to the complexity of human interactions many factors can have an effect on the post-succession success of an organization.

The early work of Grusky (1960, 1961, 1963, 1964a, 1964b), Carlson (1961) and others established a foundation upon which others have built. Variables that have been studied over the past half century include the following: studies on the origin of successors, how pre-succession organizational performance affected the succession process, how the size of an organization affected the rate of succession, how the rate of succession then affected the post succession performance of the organization, the various contingencies in order for succession to take place, the characteristics of successors, the succession process and how it is moderated by the board of directors, studies dealing with how the market reacts to succession, how organizations plan for the succession process, the characteristics of the leader that is being replaced, the characteristics of the organization prior to succession, studies on the process of succession itself, and what the non-market related consequences are of the succession process.

Additionally, the research literature concerning founder succession was also examined. The areas discussed were why founders are different than other CEO's, the pros and cons of replacing the founder, the succession models of Rubenson and Gupta (1996), Sonnenfeld (1988), and Vancil (1987).

In the next chapter the research method for testing the explanatory power of the Contingency Model for the Initial Succession by Rubenson and Gupta (1996) as it applies to small firms will be presented. The research methodology that was chosen for the study will also be discussed. An elaboration of the target population, sample size, and data collection method will be given. Finally, a description of the data analysis techniques used, the considerations for the use of human subjects, and the possible limitations of the study will also be provided.

Chapter Three: Research Methodology

In this chapter the researcher will discuss in detail the complete research methodology and design undertaken in this research project. The chapter topics will include the quantitative research methodology; the target population for the study; aspects of the sample size, the method for data collection; the selection process of survey instrument; the survey instruments' reliability, both the internal and external validity; and lastly a discussion of the data analysis processes.

Purpose

The purpose of this study is twofold. The first is to replicate and expand on previous studies by Rubenson and Gupta (1992, 1996) who introduced a contingency model for the initial succession of an organization. The second purpose is to verify that their model is applicable to organizations that are substantially smaller than the original 54 Fortune 1000 companies that were studied. As such, the new target population was organizations with fewer than 200 employees and those with revenues less than $200 million annually at the time of succession.

Research Method

There are many possible methods that can be employed for research purposes. The two major disciples are quantitative and qualitative research (Leedy & Ormrod, 2005). Miles and Huberman (1994) stated that the best strategy for developing new hypotheses, exploring new areas, and for general discovery is the qualitative methodology. Qualitative research methodologies include grounded theory, case studies, ethnography, or phenomenology. In many dissertations, a case study methodology is used because of its ability to study, in depth, a particular event or group of individuals. Often, it is a result of the case study method that hypotheses are generated regarding the study group or the event.

When the area of study or phenomena is poorly understood and there are few if any developed theories, the appropriate research methodology to use is a called grounded theory, where the developed theory is said to be grounded in the data, usually through interviews or surveys (Creswell, 2002; Glaser, & Strauss, 1967). As the data is collected, it is analyzed for thematic elements. These themes in the data are used to modify the data collection process (Corbin & Strauss, 2007). As the data continues to be gathered, the researcher will finally attain a point of saturation where no more new information is being generated from the data collection process (Kelle, 2010). It is at this point that researcher can now fully analyze the data collected and form a theory to explain the themes that were found. Leedy and Ormand (2005) told us that qualitative researchers study phenomenon in their natural setting and that they study them in all of their complexity. Miles and Huberman (1994) said that the best strategy for developing new hypotheses, exploring new areas, and for general discovery is the qualitative methodology.

If a researcher has an existing hypothesis, it can be examined via descriptive quantitative methods (Leedy & Ormrod, 2005). Working from a known theory the researcher collects numerical data such as stock price, voting records, economic indicators, or population densities. If the numerical data does not already exist, the researcher can devise a survey instrument to collect numerical data about possible events, attitudes, likes, or dislikes. Once the data has been acquired statistical methods can be applied to the data in order to determine associations between the data sets. Hypotheses can then be empirically tested for their validity.

Given that the founder succession event has such a low survival rate and that small sized businesses tend to not be publicly held, a qualitative study utilizing an interview technique was deemed to be the most appropriate. Furthermore, this study was an attempt to see if the contingency model of the initial succession applies to a different population group from the group which was first studied in 1989 (Rubenson, 1989). In principle, the research methodology used was the grounded theory approach. Instead of starting with no developed categories or themes, this researcher used the 12 sub-factors of Rubenson and Gupta (1996) as the starting point for the interview process. It was proposed that for this study to reach a point where the data started to repeat itself a minimum of 10 interviews would need to be conducted. If data repetition was not achieved after 10 interviews, the interview process would then continue on a case-by-case basis until a satisfactory level of data repetition was achieved. Given the exploratory nature of this study, the possible travel involved, and resource limitations, 10 interviews seemed to be a reasonable starting number. Some researchers suggested a pool of between 6 to 12 interviewees; while others have held that there no specific number is needed (Skeat & Perry, 2008). In the end, a total of 15 successors were interviewed to achieve data repetition.

Target Population, Sample Size, and Data Collection Method

According to Neuman (2003), a target population is a substantial group of test subjects from which a sample is drawn. Care must be taken in the selection of the target population so that the results of the study can be generalized back to the general population group (McMillian & Schumacher, 2006). Simply put, a sample size is the number of test subjects in the study. As will be explained later, the sample size for this research study was quite small relative to the target population. With such a small sample size the qualitative data methodology of one on one, interviews became the best viable option. When using interviews for data collection, Creswell (2002) reminded the interviewer to be cautious about adding bias to the participants'' answers.

Target population. The general population that this study is focused on is the successors of small sized established organizations that have completed the process of a founder transition within the last 5 years. Because all organizations will, at one time or another, be faced with a founder succession, the general population for the study is very large. According to census data prepared by the U.S. Department of Commerce (2009) the total number of firms in the United States that are classified as small business employers is 5,767,306. The original research study (Rubenson, 1989), on which this study is extending, used a target population consisting of Fortune 1000 firms, founded between 1945 and 1970, that had experienced an initial succession before 1983. In the later article by Rubenson and Gupta (1996), the authors proposed that further research was needed to validate their contingency model for smaller organizations.

For the purposes of the current study, the target population were organizations with $5 million to $200 million in annual revenue and with 200 employees or less at the time of succession that are located in southern California. The limiting values of $200 million and 200 employees are arbitrary in nature and only meant to limit the size of the target population to small organizations. In order to be considered as established, the organizations will have had to been formed before 2006. There were no restrictions placed on the industry in which the organization operates. Even with these limitations placed on the target population, the total size of the target population was still very large.

Most of the participants were selected by using a technique known as "theoretical sampling" (Corbin & Strauss, 2007, p. 143). According to Corbin and Strauss, theoretical sampling is the primary method used in grounded theory research to capture data that is most likely to assist in the formation of a theory about the process under study. According to theoretical sampling, the selection of later interview participants is influenced by data that was collected in the earlier interviews (Skeat & Perry, 2008). As the study progressed, interview participants were selected by their ability to provide additional data that could be used to construct a theory of the process under study.

The first attempt to build a list of possible participants was to contact the Chamber of Commerce Association presidents for Ventura and Los Angeles counties in Southern California. Each chamber president was informed of the nature of the proposed research and was asked to provide a list of possible companies that fit the previously mentioned criteria. After eliminating companies from the list with less that $5 million in revenue, a letter of introduction with a request to participate in the study was emailed to those companies that are located in southern California. The original number of positive responders turned out to be too low to produce at list of 10 viable interviews. Because of the low response rate, the search was expanded by contacting the Chamber of Commerce presidents in Orange, San Diego, San Bernardino, and Santa Barbara counties, all of which are located in Southern California.

At the conclusion of each interview, the interviewee was asked if they could refer the interviewer to any other organizations that has recently under gone a succession. This technique for expanding the sample population is known as snowball or chain referral sampling (Creswell, 2002; McMillan & Schumacher, 2006). During the process of interviewing each successor they were asked to nominate two or three other possible candidates they might know of so as to expand the possible supply of viable candidates needed for this study.

Data collection technique. The data collection tool that was used in this study was a personal interview with the recent successor of the company. The interview was the primary method for obtaining data. Each interview lasted approximately 1 hour in length and was recorded for later transcription. Charmaz (2000) informed us that the interview process is the one most commonly employed techniques when gathering data for grounded theory research. Given that the research was an attempt to validate a previous model, the first part of the interview consisted of a structured set of questions that focused on the 12 sub-factors that Rubenson and Gupta (1996) enumerated in their model. Each structured question was followed by a descriptive question as to how important the sub-factor was in the process of succession and why or why not it played a role.

The second half of the interview was used to ask unstructured questions of the founder’s succession experience. The unstructured nature of the interview process allowed the researcher to ask follow up questions to “distinguish between the noise and the music in ones data” (Timmermans & Tavory, 2010, p. 496). If there was a need for a clarification of an answer given during the interview, a follow up phone call was made to the participant.

The recorded interviews were then sent to an independent transcription service, with whom the researcher executed a non-disclosure agreement. The service transcribed the recordings into a text copy of the interview. The text file was analyzed for repeated phrases and words to assist the researcher in identifying themes in the data.

The interview process. As was noted previously, the number of succession studies has increased over the years but there is a shortage of studies that focus on founder succession. As a result, there is a lack of validated survey instruments to address the peculiarities of smaller business founder succession. Rather than relying on a survey instrument for gathering of succession data, the researcher employed a semi-structured interview approach. Creswell (2002) explained this approach:

> In semi-structured interviews, the researcher asks some questions that are close-ended and some questions that are open-ended. The advantage of this type of interviewing is that the pre-determined close-ended responses can net useful information to support theories and concepts in the literature. The open-ended responses, on the other hand, can allow the participant to provide personal experiences that may be outside or beyond those identified in the close-ended options. (p. 205)

Given that the research study was prompted by a request from Rubenson and Gupta (1996) to validate their model with smaller organizations, all 12 of their original sub-factors were framed as both closed-ended and open-ended questions during the interview. A copy of the questions used in the interviews can be found in Appendix A.

Internal and external threats to validity. There can be many threats to the internal validity of a study (McMillan & Schumacher, 2006). The threats that could have an influence in this study are the selection of companies to examine, major historical events during the study, maturation of the persons being interviewed, and instrumentation.

One of the fundamental tenets of grounded theory and theoretical sampling is that the investigative process follows the data. McMillan and Schumacher (2006) indicated a threat to internal validity can exist if the sample population is not randomly selected. In order to start the study with an amount of randomness, the first 3 companies that were interviewed were randomly selected from a pool of 20 companies that met the previously mentioned criteria.

Historical events do affect the pace of business transactions. Generally speaking, more IPOs will be attempted during good economic times than during bad ones. The reasons and process for a founder's succession could be influenced by a good or a bad economic climate. Since this was a grounded theory study, the effect of a good or a bad economic climate might have played a significant part in the succession process. External historical events can be minimized by conducting research during a period of modest economic growth thereby reducing the threat to the internal validity of the study.

The issue of maturation could be an issue with this study due to the time between the succession and the time of the interview. One of the limits placed on the selection of companies is that the IPO needs to have been completed within the last 5 years. In an attempt to keep the events as fresh as possible in the minds of the successors, targeted companies were selected with a preference towards those that have completed their succession most recently. Ordering the sequence of companies to be interviewed such that the ones that have had a recent succession were interviewed first was an attempt to reduce the effects of memory loss of the events that led up to the succession.

In this research study, the primary instrument for collecting data was the interview. How an interview is conducted could compromise the validity of the instrument. In order to increase the internal validity of the study a pilot test of the interview process was performed. The pilot run consisted of 2 interviews out of the pool of 20 candidate companies. According to Creswell (2002), pilot studies can help to improve the interview process. The pilot test allowed for practice in administering the interview, collecting the data, and ensuring that all the questions could be finished in a 1-hour session.

An external threat to the validity of the study would be the inability to generalize the study from the sample population to the general population. The companies in this study might not be representative of the rest of the small business population in the United States. There is a tremendous variance in the size of organizations in the U.S. and this study could only cover a small segment. Geographically, the study will take place in California, which is ranked number 1 economically in the country as well as number 8 in the world; California's economy might have an effect of the applicability of the study to economically depressed areas of the country.

There was the chance that the study was done during a particularly stable and prosperous period of time or during a period of severe economic depression. With over 90% of the business in the United States being family owned, the number of founder transitions every year will be quite large (Beckhard & Dyer, 1983). Whether it is a good or a bad economic period, the only likely effect would be the pace at which the founder transitions occur. Finally, there might be industry differences and the sample population might not have been large enough to include a wide variety of industries.

Coverage of study's core research questions. This research study had three core questions to investigate:

1) Is the Contingency Model of the Initial Succession proposed by Rubenson and Gupta (1996) transferable to organizations of smaller size and lower revenues?
2) Are the founders of small sized organizations planning for their eventual succession?
3) What other factors came into play beyond those outlined by Rubenson and Gupta (1996) during the succession process?

Data for all three of these core research questions were gathered by the interview process outlined in the next few paragraphs. Core research question 1, which is concerned with the transferability of the Contingency Model of the Initial Succession (Rubenson & Gupta, 1989), was covered by asking the interviewee to respond to a series of questions related to the previous work done by Rubenson and Gupta (1996). Core research questions 2 and 3, which are meant to discover new data on the subject of succession, were addressed by unstructured follow up questions.

Interview questions. In the original 1989 study by Rubenson, 28 hypotheses were proposed. Of those 28 hypotheses, only 7 were strongly supported; an additional 9 only held partial support. In a later collaborative article by Rubenson and Gupta (1996), the authors reduced the original 28 hypotheses to 12 antecedents that they felt might hold significance; it is these 12 postulated antecedents or sub-factors to succession that will form the core of the interview questions.

The purpose of this exploratory study was to better understand the processes that take place leading up to and during the hand over from the CEO-founder of an organization to a successor. As was stated earlier in this proposal, the high failure rate of founder successions demonstrates the need for a better understanding of the processes involving succession. As part of the interview process, each of these areas was explored to augment the original 12 sub-factors. Lastly, two open-ended questions were given. The first of which was to allow the interviewee to discuss what, if any, planning was done prior to the succession process. The second one gave the interviewee the opportunity to supply any additional thoughts on how they felt that the succession process could have been improved.

The first three sub-factors can be grouped together since they are concerned with the changing needs of the organization and how they affect the founder. These sub-factors concern the size of the firm, the growth rate of the firm, and the proliferation of the firm’s product offerings. Rubenson and Gupta (1996) felt that a founder’s skill set was more often aligned with handling smaller organizations than with much larger organizations; that as the organization changed, the founder less likely to be able to meet the new challenges.

Given that the organization is changing, the next major grouping of sub-factors was centered on the founder’s ability to adapt to the new reality that a changing organization brings. Of concern to Rubenson and Gupta (1996) were the founder’s educational level, how many years of general management experience they might have, how broad their functional experiences have been, and lastly how much industry experience they have for their organization. Once an organization grows beyond the startup stages and matures into a larger organization, Rubenson and Gupta (1996) felt that the better a founder was prepared to be a general manager, the longer their tenure would be.

The last grouping of sub-factors that Rubenson and Gupta (1996) proposed dealt with whether a founder could impede their own succession. The factors that would affect a founder's ability to keep their position are the dispersion of ownership, the percentage of inside board members, whether there was a policy of promotion from within, if the organization has a family dominated culture, and the amount of environmental turbulence.

Rubenson and Gupta (1996) succession model said that if the needs of the organization are changing, if the founder is unable to adapt, and if they are unable to impede their succession then it is highly likely that a succession event will occur. Each of these 12 sub-factors was explored in the interview process for their relevance to the succession process. Additionally, the researcher gave the interviewee the option of identifying what additional factors came into play during their succession event. These additional points of data were used to assess the completeness of the contingency model of succession.

Data Analysis

Neuman (2003) informed us that a researcher can ask three types of questions: descriptive, structural, and comparative. Due to the nature of this research study, all three types of questions were asked of the interviewees. At the center of the interview process are questions that explore the original 12 sub-factors, which are structured. The interviewer then accompanied each of the 12 structured questions with both a comparative question and a descriptive question. Additionally, some general background questions were asked so as to assess if the interviewee still falls within the preferred sample population.

Structured questions. The purpose of this research was to test the explanatory power of the original study by Rubenson and Gupta (1996) in small sized organizations. In order to do so the originally postulated antecedent variables of Rubenson and Gupta (1996) have been formed into structured questions. In both experimental and non-experimental research there are two types of variables that can be studied: dependent and independent variables. A dependent variable is the outcome or event under examination. In experimental research, the independent variable is the variable that is manipulated to see if it has an effect on the dependent variable (McMillian & Schumacher, 2006). For non-experimental research, the variable is one that cannot be changed or manipulated. In this non-experimental study the dependent variable is the event of founder succession and the original 12 antecedents Rubenson and Gupta (1996) are the independent variables. The 12 independent variables are thus:

V1: The expansion of the original product line or services.

V2: The educational level of the founder.

V3: A policy of promotion from within.

V4: The size of the organization.

V5: The growth rate of the organization.

V6: The amount of prior general management experience of the founder.

V7: The diversity of prior functional experiences of the founder.

V8: The amount of relevant industry experience the founder has.

V9: Ownership dispersion in the organization.

V10: The number of outside board members in the organization.

V11: Family domination of the organizational culture.

V12: The amount of turbulence in the organizations industry.

Each of these variables was formed into questions and then each was followed up with both a comparative and descriptive question. The comparative question was to ask how important the interviewee felt the variable was in the succession process. The descriptive question will ask why the interviewee felt the variable did or did not hold significance in the succession process.

The following is a mapping of the 12 independent variables to the questions found in Appendix A:

Table 1

Mapping of Independent Research Variables to Research Questions

Independent Variable	Research Question
The expansion of the original product line or services.	Question 10
The educational level of the founder.	Question 11
A policy of promotion from within.	Question 17
The size of the organization.	Question 5
The growth rate of the organization.	Questions 6, 7, 8, and 9
The amount of prior general management experience of the founder.	Questions 3 and 12
The diversity of prior functional experiences of the founder.	Question 13
The amount of relevant industry experience the founder has.	Question 14

(continued)

Independent Variable	Research Question
Ownership dispersion in the organization.	Question 15
The number of outside board members in the organization.	Question 16
Family domination of the organizational culture.	Question 18
The amount of turbulence in the organizations industry.	Question 19

Given that the number of participants was less than 30, no quantitative statistical analysis can be done on the numerical data acquired other than simple averages. Only generalized associations can be drawn from the numerical data. The structured questions were instead used, as Neuman (2003) informed, as the starting point for the data collection process that will lead to further refinement of the interview questions

Unstructured questions. The data analysis in grounded theory research normally follows a four-stage procedure (Charmaz, 2000; Glaser & Strauss, 1967) Stage one consists of an “open coding” procedure where the text of the interview was broken down into meaning units (Kelle, 2010, p. 196). Stage two involves combining the codes or meaning units into concept groups. In the third stage, the concepts are grouped together into categories. Finally the categories are used to produce a theory via axial coding, which can explain the processes under study. This four-stage process was followed early in the cycle of interviews to help improve the later selection of participants and also to improve the effectiveness of the following interviews.

As each interview was analyzed by the researcher he searched for concepts, similar ideas or features, and themes that keep reoccurring. Each of these units of meaning was assigned codes as part of the open coding process (Neuman, 2000). As part of the data reduction process the research processed each interview and prepared coding tables where the codes were grouped into preliminary categories. As new themes and concepts were discovered, the previous interview data was reprocessed for the newly discovered codes. It is in this manner that a new concept or theory is said to be grounded in the data (Neuman, 2000).

One key concept in grounded theory research is the notion of theoretical saturation of categories (Kelle, 2010). Saturation was reached when no more new information or concepts were gained by the interview process. Once the data starts to repeated itself, the interviews were discontinued and the process of going back over the data to verify the categories began.

Concept groups and major categories for the codes were formed as the data were analyzed. As new sub-categories arose, previous code groupings were re-evaluated to more perfectly align concepts to new categories. After all the interviews were coded and the research felt that a point of saturation had been reached where no new themes can be identified in the data, the researcher constructed a final set of major categories for the data themes.

As the final list of categories was established, the researcher identified a core category to act as an axis upon which a theory could be constructed. According to Corbin and Strauss (2007) axial coding can also happen during the open coding process. Having identified a core concept the researcher then identified the causal conditions for the need for a succession or a condition that might delay it. These causal conditions may be found in the original data categories that were constructed during the open coding process.

According to Creswell (2002), axial coding results in a specific set of actions that result from the core category. In the case of this research, those actions are the dependent variable, a succession event. Creswell continued that the actions have both a context and influence factors for the actions. As part of the axial coding process and theory development, the researcher identified both the contexts and influencing factors in the succession event by going back over the interview data with the central category in mind.

By definition, in grounded theory research the theory is supposed to rise up out of the data collected. As such, the researcher must engage in the process without any pre-determined theories or assumptions. This can be challenging if the researcher has pre-conceived notions about causal relationships that would bias the data collection process. The possibility of bias can be reduced by involving more than one person in the open coding and by creating concept groups. A further reduction of bias was achieved by having all the interviews electronically transcribed to eliminate any bias that might have occurred during note taking. In this research study, the recorded interviews were transcribed by a medical transcription service with whom the researcher signed a confidentiality agreement. The preliminary open coding of the transcribed documents was done with the assistance of computer software so as to reduce the number of missed themes.

Considerations for Use of Human Subjects

From the proposed list of candidate companies, an email was sent to each CEO to ascertain if the CEO is available and interested in participating in the research study. If the CEO responded that she or he was interested in participating, another email was sent that described the study in detail and included a sample set of questions to inform the prospective participant of the type of questions that would be asked. In addition, a consent form was mailed to the prospective participant for their signature.

Once a signed consent form was returned, a phone call was made to the participant to explain that participation was optional, voluntary, and that there were no adverse consequences for terminating participation at any point. Issues of confidentiality were explained as well as the process of reducing the data collected to a form that would enhance their anonymity.

On the day of the interview, the participant was informed once again that participation was optional and that they could terminate the interview at any time. A duplicate consent was signed and given to the research subject for their records.

This research study was one that involved face-to-face interactions with human subjects. The participants were successor CEOs of small companies; therefore, they were not classified as needing special protections as a member of a vulnerable population.

Possible Study Limitations

The primary goal of this study was test the explanatory power of the original study by Rubenson and Gupta (1996) as it might apply to small sized companies. Given that the new target population is vastly larger than the original one, attempting to capture even 1% of the new target population would have been extremely difficult. With a sample population of less than 30 interviews, the data collected might be skewed away from the general population norms.

Another limitation is that the sample population used in the study was located in one geographic area of the country, namely southern California, and therefore might have social norms that are different from other regions of the country. Therefore, one possible limitation of the study might be that it might not be able to be generalized to the larger population.

Lastly the validity of a research study is limited to the reliability of the data and instruments used. This research project collected data through an interview process and relied on the honesty of the answers given by the people interviewed. Given that some of the successions were not done under ideal conditions, the interviewees might have had a motivation to respond in ways that enhanced their image as a successful leader. It was up to the interviewer to determine if the answers given at the time were honest and unbiased.

Summary

Chapter three addressed the research methodology designed to undertake the research project, the new target population for the study, certain aspects of the sample size, what method for data collection was employed, how the survey instrument was selected, the instruments reliability, both the internal and external validity of the study, and a discussion of the various data analysis processes that was untaken.

Chapter Four: Results

The purpose of this study was to determine the applicability of the Contingency Model of the Initial Succession (Rubenson & Gupta, 1996) to a new target population. In this chapter, the researcher will present the findings of the analysis that was performed on the collected data. The researcher used a qualitative research methodology to answer the following research questions.

4. Is the Contingency Model of the Initial Succession proposed by Rubenson and Gupta (1996) transferable to organizations of smaller size and lower revenues?
5. Were the founders of small sized organizations planning for their eventual succession?
6. What other factors came into play beyond those outlined by Rubenson and Gupta (1996) during the succession process?

Data Collection

The researcher used a combination of structured and unstructured questions during the interviews of 15 CEOs about the process of succession from the founder to them as the next organizational leader. Fourteen of the interviews were conducted at the successor's primary company location at a date and time of their choosing; one interview was conducted via telephone due to distance and scheduling issues. The interviews were conducted in private to give the research subject freedom to talk without other members of the organization overhearing them. During the interviews the researcher encouraged the interviewees to express what they felt were the salient aspects of the founder transition as well as to how important they felt each of the 12 sub-factors in Rubenson and Gupta's (1996) model were to the transition. The researcher had the successors rate

Rubenson and Gupta's 12 sub-factors on a scale of 1 to 10 as to how much they felt the factor had as a causal influence for the succession to take place.

Interviewee Profiles

Fifteen successor CEOs were interviewed for this study: 3 were female and 12 were male. In order to be included in this study, the CEO must have been the first leader to succeed the founder as the new primary leader in the organization. The elapsed time between the succession completion date and the research interview date had to have been 5 years or less. The range of annual revenue was between $5 million and $200 million dollars at the time of the transition. Lastly, the organizations must have had less than 200 employees at the time of transition. The demographic information gathered during the interview process is presented in Table 2. Industry classifications from the U.S. Department of Labor's Standard Industrial Classification System's Major Groups (2008) are used in order to provide confidentiality for the organizations and CEO's involved in the study. Due to the length of time required to contact each of the chamber presidents, to contact each of candidates, and the low number of companies found that matched the target population, the researcher employed chain reference sampling as a method to find more candidates. The referrals the successors favored individuals in the same industry as the successors; this is why there are duplicate industries represented in Table 2.

Data Acquisition Methodology

The initial list of participating companies was suggested for inclusion in the study by conversations with the presidents of southern California chambers of commerce. One hundred twelve chambers were contacted via email and phone conversation to inquire if they knew of any organizations in their chambers who had recently undergone a founder transition or who were currently in transition. Of the 112 chambers contacted, 24 of them responded with possible candidates for the study. Combining the recommended companies from the 24 chamber presidents yielded a list of 58 possible candidate companies. An attempt was made to contact the current leader of each of these companies by both email and phone calls. Out of the 58 companies 10 successors agreed to participate in the study.

Table 2

Profiles of Participating Successors

Successor	Industry Classification	Age at Transition	Years in Control
S1	Chemicals and Allied Products	64	22
S2	Real Estate Operators and Lessors	51	50
S3	Motion Picture Production	65	17
S4	Offices and Clinics of Dentists	62	31
S5	Miscellaneous Shopping Goods Stores	74	20
S6	Laboratory Analytical Instruments	75	25
S7	Construction	69	26
S8	Eating And Drinking Places	67	12
S9	Construction	56	18
S10	Real Estate Operators and Lessors	76	59
S11	Management Consulting Services	69	24
S12	Management Consulting Services	63	26

(continued)

Successor	Industry Classification	Age at Transition	Years in Control
S13	Computers and Computer Peripheral Equipment and Software	51	8
S14	Computers and Computer Peripheral Equipment and Software	65	20
S15	Management Consulting Services	69	22

An additional five companies were added to the research study by employing chain referral sampling (Creswell, 2002; McMillan & Schumacher, 2006), which entailed asking each of the original 10 successors if they knew of any other companies that had recently undergone a succession. The entire process of obtaining and interviewing candidates was completed in approximately 5 months.

Analysis of Interview Questions

All except for one of the interviews was conducted in a private face-to-face conversation and lasted for approximately one hour each. The one interview that was not done in a face-to-face format was conducted via a telephone conversation. All of interviews were audiotape recorded and later transcribed by a professional transcription service into a Microsoft Word formatted document. During the interview, process the researcher took notes about the responses given to the questions and also asked for expanded details when warranted to complete an answer to a question. These transcripts along with the notes taken by the researcher were used as the basis for the data analysis. Gay and Airasian (1999) offered that a researcher has three options for collecting data during an interview: note taking during the interview, recording notes after the interview, and the most viable in their opinion is tape recording the interview. Every interview followed the same process in order to minimize any variation in the presentation of the questions.

Each research subject was asked the same 25 questions. In grounded theory research, it is a common practice to allow the collected data to modify the questions asked during the interview process so as to allow the discovery of new data (Corbin & Strauss, 2007). During the course of the 15 interviews, the researcher found no need to modify the interview questions as the data seemed to be falling in line with the original research questions. Twelve of the questions, numbers 7 through 22, were directly related to the sub-factors Rubenson and Gupta (1996) proposed as being significant in their Contingence Model of the Initial Succession. Each of these factors were rated on a scale of 1 to 10 by the successor as to how important he or she felt the factors was to the initiation of the succession process. Additionally the successor was asked to provide a detailed explanation for their rating of the factor. Question numbers 23 and 25 dealt with succession planning, while question 24 probed the interviewee for succession factors outside of Rubenson and Gupta's (1996) proposed model. Questions 1 through 6 were collected as background information for the study. Each of these three question groups will be analyzed in the following paragraphs.

In order to find new thematic information from the response to the unstructured questions, a four-stage procedure was followed (Charmaz, 2000; Glaser & Strauss, 1967). After each of the interviews was transcribed into a text document, the transcribed interviews were imported into a computer software package called Nvivo 10 for manipulation and analysis. As part of the first stage, phrases the researcher felt were relevant to the succession process were collected out of the texts. Once all the pertinent phrases were collected, the second stage consisted of sorting the phrases into concept groups. The third stage consisted of further grouping the concepts into categories. Finally, in the fourth stage, the categories were reviewed against the original interviews to determine if new concepts could be found in the data.

During the interview process, the researcher collected numerical values from 16 of the 25 questions. Table 3 is a summary of the statistical data collected during the interviews. Where possible, the researcher calculated a simple average for the collected values. The three columns of Table 3 include the question asked of the research subject, the average value of all 15 responses, and the average score of importance for each question as it related to being part of the cause for the founder’s succession. Although the annual revenue of the organization at the time of succession was not part of the original study, all of the research search subjects volunteered a rating for its importance. Annual revenues for the organizations were not provided by all of the organizations; therefore, an average value was not calculated.

Table 3

Average Scores for Questions 4 Through 23

Question	Average Value	Average Importance
Age of Founder	65	N/A
Years in Control of Organization	25.3	N/A
Sales Revenue	N/A	3.13
Product Change	68.7%	3.50

(continued)

Question	Average Value	Average Importance
Education Level	3.13	1.90
Years of Management	30.2	2.90
Functional Experience Breadth	9.07 out of 10	2.57
Industry Experience	9.00 out of 10	2.10
Founder Equity	74.0%	4.90
Board of Director Insiders	85%	3.07
Inside Promotion Policy	60%	6.37
Family Influence on Organization Culture	93%	7.77
Industry Turbulence	N/A	3.77
Planned for Succession	40%	N/A

Three of the importance averages show values of non-applicable. These three questions were not part of the original study by Rubenson and Gupta (1996) and were therefore not scored. In the responses for the size of the organization some, but not all, of the research subjects responded with their annual revenues in addition to the number of employees. Due to the incomplete set of revenue data, the average value was not calculated. When asked about industry turbulence, the research subjects gave so many different answers that applying a scale to their answers proved to be intractable. As a result, the average score for industry turbulence was not calculated. In order to provide a side-by-side comparison of the average scores for each of the research questions, Figure 1 is provided.

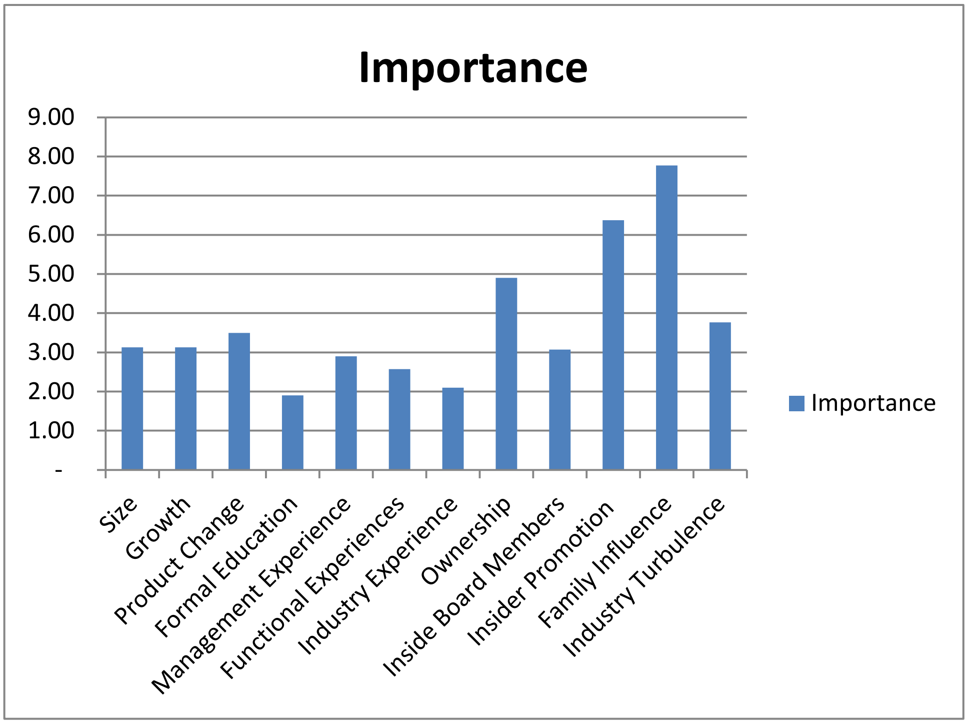

Figure 1. Average scores for importance on the succession event.

Analysis of Interview Questions 1 through 6

Questions 1 through 6 dealt with background information about the founder and his or her organization. All of the organizations were privately held and only one organization had an externally controlled board. Because all of the organizations were privately held, question number 12 which dealt with public companies became void. On average, the succession event happened 4.47 years previously for the 10 organizations that had completed their succession. Of the five remaining organizations, the successor indicated that the succession would be completed within 18 months. The average age of the founder in the study at the time of succession was 65 years old and they were in control of the organization for an average of 25.3 years. There were 8 different types of organizations represented in the study. One organization was an agricultural chemical company, two were commercial property development companies, and another was an entertainment-media post production company. There was a medical firm, a retail jewelry company, a scientific instrument company, and two organizations were general construction companies. Finally one company was a multi-establishment restaurant organization, three companies provided construction management services, and two companies were in the computer technology industry.

Analysis of Interview Question 7

Question 7 asked, *What was the size of organization at the time of transition, how important was this in the succession event, and why?* The size of the organization was assessed by the number of employees at the time of succession. Additionally, many of the research subjects also supplied their estimated annual revenue in sales. As is noted in Table 3, the average number of employees for the organizations at the time of transition was 59. The supplied revenue numbers were used to assess question 8 as it related to organizational growth. When asked how important this factor was in precipitating the succession event, the average score was 2.9 out of 10. When asked why or why not this element was important, three themes arose:

1. At the time of succession, the founder was able to handle the both the number of employees and the sales volume of the organization.
2. A health scare caused the founder to doubt his or her ability to continue performing at a level required to sustain the business.
3. Self doubts by the founder in his or her ability to make sound business decisions.

Of the three themes, two thirds of the successors did not consider the size of the organization as an issue that triggered the founder's passing of the organizational control to them. Research subject S1 gave a typical response:

> Well the size of the organization was irrelevant because the succession had already been planned, we had been planning this since 2002. The acquisition just happened to come along at about at the same time. Therefore, the size of the organization was irrelevant to the transition. We had been pretty flat in employees except when we did an acquisition.
>
> It was all part of that turbulence in the industry why we had the opportunity, we were able to weather that turbulence, another company wasn't so we were able to acquire another company that wasn't good with dealing with turbulence. To look at going from where they were as a small individual company to now a new merged company, say you had three companies and they all have 25 employees and now those same guys are managing 75, now that was huge. That was not the real cause of the succession, the real cause of succession was age. (S1, personal communication, April 5, 2012)

Analysis of Interview Questions 8 Through 11

Due to the way in which a question of growth could be understood to mean different things to different people, this factor in Rubenson and Gupta's (1996) proposed model has been asked in four parts. The first being the overall growth rate of the organization and then three sub-factors of growth. The first sub-factor was the growth in the number of employee's, the second was the growth rate in sales, and the third and final sub-factor was the growth rate in the number of customers. Each interviewee was then asked to combine all three of these sub-factors into a single score of 1 to 10 as to how much organization growth affected the succession event of the founder.

Question 8 was *What was been the overall rate of growth for the organization during the founder's tenure, how important was this in the succession event, and why?* The successors gave this combined factor an average score of 3.13 out of 10 in its importance in the cause of the succession. Three of the organizations described their organizational growth as either flat or in a declining state. Two of the organizations experienced growth rates in excess of 30% per annum. The remaining 10 organizations described their growth levels as either modest or moderate in nature. Only research subject S8 believed that overall organizational grow was a significant factor in the succession event. The founder had told the S8 that he just did not have the energy to run the day-to-day operations:

> Growth rate was pretty modest I would say because we modestly tracked up and then really accelerated because we have added locations. It was very modest at first. You know we basically had our people and, and didn't need many more, so I would say that it was probably 2%, the growth rate on employees, but what happened in 2008 is that it jumped huge, both, both sales and employees because we opened a new big place. I mean we had to hire about 170 people for one of our places to open. There's always a lot of attrition in the beginning. (S8, personal communication, June 8, 2012)

Question 9 asked *What has been the growth in the number of employees, how important was this in the succession event, and why?* Two of the organizations had significant growth in the number of employees, greater than 30% per year. The rest of the organizations had growth rates of 1% to 5% per year. Four of the organizations' employee counts changed depending the number of customer contracts they had at any given moment. Only one of the successors interviewed had a negative growth rate in the number of employees.

Question 10 was *What was been the growth in the sales revenue, how important was this in the succession event, and why?* Two of the organizations reported high rates of growth, 30% or more per year. One of the organizations reported having a steady decline in sales in the years leading up to the succession, while two of the organizations reported that sales had leveled off during the years leading up to the succession. The rest of the organizations reported overall modest to steady growth in sales revenues. Research subject S13 responded that it was the lack of sales growth that lead to the succession event:

> I think the thing that triggered it was the company reached a certain size and [it] flattened for a year, [and that he] could not get any further growth in the business in a market growing at 30%, is tragic. The pressure internally from the board and CEO was enormous to identify the root cause of that and then how do you put the company back into a growth trajectory. I think it was pretty quickly discerned between the board and the CEO that there needed to be a change. And then it was like we got to make this change happen. (S13, personal communication, June 9, 2012)

Question 11 was *What was been the growth in the number of customers, how important was this in the succession event, and why?* For each of the successors interviewed, the growth in customers closely matched the growth in revenues. One of the organizations had a high customer growth rate of 50% per year and another had 35% per year. Research subject S6 indicated that the rapid growth rate had gotten out of hand for the founder:

> The real growth occurred in the decade of the 2000. I believe he liked growth, he set out to grow, and we expanded. I joined the company in 2001 and that certainly helped, but we set out to expand both internationally and nationally. During the five core years, during the ten years from 1995 to 2005, it was about 35% per year, 35% annual growth rate. I think the company he wanted to grow, and we set out to grow it, but the company rapidly became more and more complex. And it was in some of that complexity that I think he began to recognize, was outside of his domain. (S6, personal communication, June 4th, 2012)

Three of the successors described their customer growth rate as flat while the rest of the successors described their growth in customers as modest or steady increase.

Analysis of Interview Question 13

Question 13 asked *During the tenure of the founder how much has the initial product offering or service expanded or changed, how important was this in the succession event, and why?* Nine out of the 15 successors interviewed reported that there had been extreme changes in the overall product offerings since the inception of the organization. Three organizations reported no changes at all in their product offering while the remaining three organizations reported modest changes in products and services during the tenure of the founder. Despite the majority of the organizations undergoing extreme changes in products and services offered, the reported influence score of these changes on the succession event was only 3.68. When asked why the changes had so little affect on the succession event the successor indicated that product change was an expected aspect of their market space. More than one successor indicated that keeping up with technology or regulatory changes was a personal characteristic the founder. Only research subject S12 stated that the change in product offerings was a major reason for the succession:

> This is really a complicated industry. And it's a really tough industry to work in. This, I think, has a lot to do with burnout of the owner. He was tired of, you know, chasing -- you're constantly not just chasing the agency but also chasing the large companies and also chasing politicos. We've changed, we still offer the same services we initially offered. And in some circles that's what we're known for. But we have expanded significantly. In the industry that we work in there's consultants that have all kinds of different niches, things that they do. If there's 50 things that could be done, initially we did one. Now we probably do 20. (S12, personal communication, July 14, 2012)

Analysis of Interview Question 14

Question 14 was *What level of formal education has the founder achieved before the transition, how important was this in the succession event, and why?* Of the 15 founders, 2 had earned a doctorate degree, 3 had earned a masters degree, 7 had earned their bachelors degree, and 3 had high school diplomas. Only one successor reported that the education level of the founder had a significant influence on the succession event. In all the other organizations, the successor reported that the founder was able to learn everything he or she needed to run his or her business as the organization grew. For two of the founders with high school diplomas the successors reported that hard work and an attention to the business was more than enough to allow them to successfully run their multi-million dollar a year organizations. Research subject S2 related the following:

> He just graduated from high school, he is a self made man. He just, you know, he started off selling houses part-time. Given the opportunity, he would buy some little apartment buildings and he just grew from there. He boot-strapped the thing all the way up. Figured it out pretty much on his own. I think that because he has continued to be involved for the past 20 years and has kept abreast of the changes in the industry he understands it all, and his basic instincts are still relevant. (S2, personal communication, April 9, 2012)

The average reported importance of formal education to the succession event was just 1.96 out of 10.

Analysis of Interview Question 15

Question 15 asked *How many years of general management experience does/did the founder have at the time of transition, how important was this in the succession event, and why?* The average number of years of general management experience the founders had at the time of succession was 29.8 years. The highest number of years was 50 while the lowest was 12 years. A score of 3.04 was reported for the importance of management experience to the succession event. Several of the founders had been employed in general management positions before founding their companies. Only research subject S8 felt that the founder didn’t have enough general business acumen to run the organization as it grew:

> Well he was the head man. He was making decisions, he was significant, he wrote the checks, but he had a bookkeeper. My dad’s pretty old school and HR, as it existed for this company, was pretty lacking. We’re probably lucky to have gotten through it all without any problems. He managed the whole thing, but we have subordinate managers who have their purview and their own little areas of

> expertise. The bar manager would do the wine list and my dad had no input. I just think he was starting from farther behind, it’s harder for an old school guy like him. That is where I came in, it’s easier for a kid whose is 22 to learn this business. (S8, personal communication, June 8, 2012)

Analysis of Interview Question 16

Question 16 was *How varied was the functional experience of the founder at the time of management, how important was this in the succession event, and why?* In all but two of the organizations, the founders were involved in all aspects of the organization as it grew. In both of the exceptions, the founders delegated the responsibilities in which they felt they were not proficient. The reported score for functional experience as a precipitating factor in the succession event was 2.68 out of a possible 10.

Analysis of Interview Question 17

Question 17 was *How much relevant industry experience did the founder have at the time of transition, how important was this in the succession event, and why?* Only 1 of the 15 founders was not considered to be an expert in their industry by their successors. Several of the founders were heavily involved in their industry associations and spoke at industry events. Research subject S4 related that the founder went above and beyond what was his industry regulations required: “He took more CEs than would be necessary. To continue our license its 50 hours a year, but. He took two year-long mini residency courses that were probably 180 CE hours each.” For this factor, the successors reported an average score of 2.18 out of a possible 10 for the influence it had on the succession event.

Analysis of Interview Question 18

Question number 18 asked *How dispersed was the ownership of the firm at the time of transition, how important was this in the succession event, and why?* Three of the 15 successors reported that the founder had a minority ownership stake in the organization at the time of succession; 7 of the founders had a 100% ownership position at the time of succession. The remaining five founders had a majority shareholder status. Six of the interviewed successors reported that founder's ownership position had a significant influence on the succession event. Additionally another 6 successors reported that the founder's ownership had no influence at all on the succession event. A common response from the successors was that due to the founder's ownership position, the founder set his or her own timetable for the succession. Research subject S11 gave a typical response about the founder's sense of control: "She reported to no one" (S11, personal communication, May 17, 2012). The reported score for ownership dispersion as a precipitating factor in the succession event was 5.25 out of a possible 10.

Analysis of Interview Question 19

Question 19 asked *What percentage of the board of directors are neither related to the founder in some way or would not be considered current employees of the firm, how important was this in the succession event, and why?* Only 1 of the 15 companies reported that the board of directors of the organization had a majority of outside directors. Several of the successors reported that the founder sought opinions from the board but basically did as they pleased the vast majority of the time. The reported score for outside board members affecting the succession event was 3.21 out of a possible 10.

Analysis of Interview Question 20

Question 20 asked *How much does the founder's family influence the culture of the organization, how important was this in the succession event, and why?* Fourteen of the 15 successors interview reported significant family influence in the organization. Research subject S10 responded that she had to tell him it was time to retire:

> This was his life. He didn't want to think about it. He didn't want to do it. And then we came in and said, dad, you know, reality is 78 years old. You know, you might want to think about retiring. He was 78. We didn't want him to just keel over and have like no plan at all, hello. I mean, it would have been so scary. It would have been awful. (S10, personal communication, June 27, 2012)

The only organization to report no family influence on the culture of the organization was the organization with a majority of outside members of the board of directors. The reported score for family influence affecting the succession event was 7.68 out of a possible 10. This average score was the highest factor affecting the succession event.

Analysis of Interview Question 21

Question 21 was *Is there a policy of promotion from within the company for recently vacated positions, how important was this in the succession event, and why?* Nine out of 15 of the organizations had policies of promoting people from within the organization when positions were vacated. Ten of the successors interviewed were a member of the founder's family. Only one organization interviewed had a successor in the CEO position while a member of the founder's family was in a secondary management position. While many of the successors admitted they had an inside track for the position of next leader after the founder, S1 responded with the following:

> There is a policy of promotion of qualified people within the company, yes. It was critical in the succession because that's what they decided in 2002, they wanted somebody from the inside to run it and had the policy of that. But we didn't pass it down to a family member. I said we promote qualified people from within. I don't care if they're family, I don't care if they're not family.
>
> I do not have a policy of nepotism, I'm anti-nepotism. My brother probably was not as much, well he wasn't, but no I would not have taken this position if I wasn't qualified for the position. So I might have had an inside track because I was a family member, I didn't get the job because I was a family member. I'm not taking just about myself but that's my policy so when you say promoted from within, because I have a nephew working here, but he doesn't automatically become management because he is a family member. If he was qualified, he would be in management, he's not qualified so he stays as a salesman. So when I say promote from within, I mean it is irrelevant what your name is from where I'm at, and in the succession event that part was critical. I mean we needed qualified people in here. (S1, personal communication, April 5, 2012)

The reported score for a policy of promotion from within the organization as a precipitating factor in the succession event was 6.18 out of a possible 10.

Analysis of Interview Question 22

Question 22 asked *How turbulent was the industry at the time of transition, how important was this in the succession event, and why?* Four of the successors responded that their industries were very smooth and profitable. For the smooth industry organizations, the succession of the founder was made easier due to good economic times. Eleven of the successors reported that their industry turbulence was either very bad or the worst in many decades. None of the 11 successors thought that industry turbulence contributed to the succession of the founder. In fact, they saw the turbulence as a normal part of the business. Research subject S2 gave this response:

> Real estate is an interesting field and I guess that in some ways it's almost always turbulent. Either turbulent with opportunity or turbulent with risk. It seems like real estate is either booming or busting and both boom and bust provide opportunities and threats so even in a boom market, you know, a booming market creates great opportunities but also takes threats. You know, you can end up being

> run over if you're not taking advantage of the situation and a bust can destroy a real estate company or provide great opportunities for a real estate company. So, for example, this last four year period has been a horribly turbulent time in the real estate market as everything you read about, but a great opportunity for us because we can go out there and buy up everybody's mistakes at a fraction of the cost. (S2, personal communication, April 9, 2012)

Research subject S15 talked about how industry turbulence invigorated the founder:

> I'd say right now it's quite turbulent like so many industries. It's turbulent from both from construction and it's not secret construction has taken a big hit even in the latest recession, and so in terms of how turbulent was the industry at the time of transition, quite turbulent. But how important was that in the succession event? Not at all. Again, I think two reasons. One, there is no drop in his energy level or the excitement of changing gears because of changing circumstances. He thrives on turbulence. I think he loves challenges and a down economy is a challenge and how to navigate is a challenge and I think that's something that actually get his juices going. (S15, personal communication, August 24, 2012)

The other 2 successors said that their industry turbulence tended to oscillate with the current general economic conditions. The reported score for industry turbulence as a precipitating factor in the succession event was 3.96 out of a possible 10.

Analysis of Interview Question 23

Question 23 was *What planning, if any, was done prior to the need for the succession?* Only five of the successors reported that their organizations did any advanced planning for the succession event. The concept of planning for a succession event never occurred to six of the founders and this resulted the successors reporting the succession process being very abrupt and short. Three of the successors indicated that the founder had some ideas about the succession process but thought that the process would take care of itself. Research subject S12 responded with:

> His planning wasn't done in a really systematic way. It was kind of like, I want you to do this, and you figure out how to make it work. You know, I obviously was thrown to the wolves when I first started. And, you know, good luck; figure it out. I don't know if that's partly because he wasn't sure how to help. Who to

> introduce me to; what was important and not important to pay attention to in the business. (S12, personal communication, July 14, 2012)

Analysis of Interview Question 24

Question 24 asked *What factors or situations do you believe triggered the appointment of a new leader in this organization?* Five of founders had planned for retirement and the succession was part of the plan. A prominent theme appeared during the interviews concerning this question in that many of the founders were only thinking in terms of cashing out their ownership as a definition of succession. Another five of the successions were triggered by health issues. Several of the successions used the phrase *"heath scare"* to describe the founder's motivation behind the leadership transition. In two of the successions, the founder decided that he or she was no longer capable of running the organization effectively and started the process of choosing a new leader. The last two successions were instigated by family members who persuaded the founder that it was time for them to pass control to a new leader.

Research subject S15 related that the founder was introspective enough to realize that one day a succession must happen:

> He's a realist by nature, so as far as I know he's a realist. If he detects age catching up with him, he would be the first to say 'you know, I'm not about to be a drag on the organization by sticking around longer than I need to be.' He's got that ability to self-evaluate. But the reality is everybody ages at some point, at some point you're not as good as you used to be. So rather than having that succession or the transition occur because it's dictated, let's initiate a transition organizationally or collectively on our terms rather than letting health or other events or a significant event dictate to us a transition. Because you have a lot less control over it then, and I think the odds of the succession not going smoothly or even failing increase when it's not done on your terms or with albeit an informal plan, it's still a plan. (S15, personal communication, August 24, 2012)

Analysis of Interview Question 25

Question 25 was *What would you have done differently to improve the succession process?* The most common answer given to this question was that the successors would have implemented a detailed plan for the transition. In only 5 of the 15 transitions was there an actual plan of succession. In one of the planned successions, the founder deceptively trained the successor for 2 years without the successor realizing he or she was to be the new organizational leader. Another common concern of the successors had to do with areas of responsibility during the transition. Apparently several founders temporarily took back areas of responsibility that they had previously transferred to the successor. A few of the successors complained that this vacillating back and forth of responsibilities gave confusing messages to the organization as to who was responsible for what. Ultimately this undermined the credibility of the successor.

Themes

The third research question for this study was *What other factors came into play beyond those outlined by Rubenson and Gupta during the succession process?* During the discourse of the approximately 15 hours of interviews, several themes arose. In order to be included in this table the at least three of the research subjects must have alluded to or mentioned them before, during, or after the interviews. These themes are summarized in Table 4.

Table 4

Discovered Themes

Theme	Description	Times Expressed
T1	Founders were not thinking in terms of legacy. They were only thinking in terms of how to cash out of the business.	12
T2	They did not plan for the succession until it was thrust upon them by illness, old age, or by their family.	9
T3	Founders did whatever they wanted because they owned the majority shares.	8
T4	Successors were not inclined to confront the founder.	7
T5	Founders had a high level of self identification with the business. They felt that they were the business.	7
T6	Founders hung onto the organization because it was their hobby.	4

Theme T1. When talking to the successors about the triggering event for the succession, several of them discussed how the founder was attempting to find a way to withdraw financial gains from the organization. Three of the founders used an employee stock option plan to sell a portion of their equity back to the company; other founders sold their equity to their successors. Several of the successors mentioned that the main concern of the founders was how they could fund their retirement. In only 3 of the 15 organizations was there an attempt by the founder to insure that the organization would grow and thrive after their departure by the equipping of the next leader. The majority of the successors were left to their own devices as to company direction and purpose without extensive training or guidance. During the interviews, the successors implied that the founders' expectation was that the organization would just continue to function as it always had, even after the founders' departure.

Theme T2. For 9 of the 15 founders, they did not plan for the succession until it was thrust upon them by illness, old age, or by their family. In one case, the founder's two sons had to get in the founder's face about starting the process as they did not want to be in a bad tax situation if their father should die without having a plan in place. A daughter and son of one founder complained to him that they did not want him to die at his desk. In one succession, it was the death of one of the co-founders that suddenly caused the remaining founders to realize their own mortality and started them to plan for the succession. For another founder, a skiing accident caused him to start the transition of leadership to his son. Finally, one founder decided that it was time to retire before he could not get out of his chair anymore.

Theme T3. In only 3 out of the 15 organizations did the founders hold less than a majority equity position in the firm. Eight of the successors reported that the founders acted without regard to the advice of others. Several of the successors complained that the founder's behaviors undercut their authority during the succession process. As a result, the founder's actions caused the succession processed to be suspended, started again, and sometimes to be reversed. In one extreme case, the succession process took 20 years to complete.

Theme T4. Normally during the succession event, a founder will transfer authority and leadership to the successor. Given that 12 out of the 15 founders had a controlling equity position in the organizations, they were able to set the time and circumstances of their retirement. While talking to the successors, 7 of them expressed that they were not inclined to confront the founder. Many of the successors indicated that they wished they had been firmer in the timing and how the succession process took place. For one successor, it was simply allowing the founder to have one last big deal before he retired, which turned out badly for the organization. For another successor, it was allowing the founder to drag out the succession over many years, which kept the successor in a state of limbo for a long time. For one successor, she could not bring herself to confront the founder to really start the process as her family never took her seriously. In one succession where the son of the founder was passed over, the new leader did not want to "rock the boat" and undo many decisions the son had done before the succession event. Lastly, one successor waited until several months after the succession had completed before removing several employees that the founder had been carrying on the payroll despite low performance reviews.

Theme T5. In many of the organizations interviewed for this research, the founder was the sole employee in the beginning and their name is also in the business name. For seven of the organizations, the founders had a high level of self-identification with the business; it was felt that the founder was the reason the business existed. One of the founders was the lead provider of the service for the organization for many years and personally held the state credentials that allowed the organization to operate. Another founder was prominent in his industry to the point of being the president of the trade association; it was not until a health scare that he considered divesting from the business. Still another founder felt it was his or her personal responsibility to the community to keep the commercial activity going in the community and to not let it die during hard economic times. Lastly, one successor felt that for many years she would have to use the founder's reputation in her industry in order to draw business to her firm.

Theme T6. Four of the successors indicated that the founder put off the day of succession because he or she treated the organization as his or her hobby. One of the successors discussed how the founder treated the organization as his personal sandbox to play in and that even after the succession had completed, the founder was still coming into the office. Another successor spoke about how the founder was still trying to make deals and would not give up the corner office even though he was no longer running the day-to-day operations. For one of the founders, he had no other hobbies and he was constantly involved with running the business; his daughter recalled how as a young girl, he would bring her along on weekends and taught her how to do building inspections in the form of a game. Lastly, one successor indicated that the business consumed so much of the founder's life that even during family events and meals the two of them were talking about the firm.

Comparison Between Model and Interviews Responses

There are three main contingency components in Rubenson and Gupta's Contingency Model of The Initial Succession (1996): Are the founders skills aligned with the needs of the organization, can the founder adapt to changes in the organization, and can the founder impede succession? Skill alignment consists of three sub-factors: the size of the firm, the growth rate of the firm from its inception, and the degree of product proliferation. Founder adaptability has four sub factors: the level of education of the founder, the founder's general management experience, the breadth of functional experience and the amount of industry experience. Lastly the ability of the founder to impede succession has five sub factors: dispersion of ownership for the firm, the percentage of inside board members, a policy of promotion from within, the degree to which the founder's family dominates the culture of the organization, and finally the amount of environmental turbulence.

Skill Alignment. It has been reported in the literature by multiple authors (Davila, 2005; Greiner, 1998; Mintzberg, 1973) that the skill set of an entrepreneur is not the same skill set as that of a general manager. It is often during the stages of growth for an organization that the founder finds himself or herself under stress to meet the new needs of the organization that they are not naturally gifted to provide. In the case of founders of smaller sized organizations, in the beginning they find themselves performing all the functional aspects of the organization. Two sub-factors for skill alignment are the overall size of the organization and its rate of growth.

For many of the founders, their organization was both their vocation and their hobby. To this end, the founders controlled the organization so that their skill set was always an asset to the organization. Thirteen out of the 15 successors felt that neither the size of the organization nor the growth rate were in anyway a factor in precipitating the succession event. Even with varying economic conditions, the founders were managing the size of their firms in terms of their ability to oversee organizational operations. All 15 of the founders started their organizations by utilizing their specific skill set as the central way to generate revenue for the firm. Only 2 of the interviewed successors indicated that the skill set of the founder was not well aligned with the organization at the time of succession.

Research subject S8 reported that his father stayed focused on the preparation and acquisition of the food for their restaurants while leaving the other aspects of the business to others. As a result of this narrow focus, when the restaurants grew in both locations and employee count, the founder was unprepared to deal with general management issues. Only research subject S13 reported that his organization had a strategic goal of high growth and it was this same company that decided to retire the founder when the growth goal was not met. All of the other organizations were conservative in their expansion goals or were allowing the organization to grow or to shrink in response to prevailing economic conditions.

Combining the results of interview questions 8, 9, 10, and 11 indicates that overall growth was not a determining factor for founder tenure in all but one of the organizations. Rubenson and Gupta (1996) postulated a negative association for both organizational size and a firm's growth rate against the length of the tenure for the founder. In this research study, no association could be found between the length of a founder's tenure and the size of the organization or the growth of the organization.

The third component of skill set alignment is the proliferation of the firm's product or services. Of the 15 organizations, 3 successors indicated that there had been no change in their product or service offerings. For the no change founders, one organization was in construction, one was in real estate, and the last one was in computer sales. Each of these founders played a central role in their organization's revenue generation until the point of succession. There were 10 of the successors who used terms such as radical, significant, and greatly expanded to describe the change their organizations had for their product and service offerings.

For the 10 organizations that had significant proliferation of their product line, several of the successors reported that their organizations were for the most part simply keeping up with regulatory or technology changes for their industry. According to the successors, the expansion of their offerings was a natural consequence of the company's growth over time. Research subject S4 described the founder as being very proactive in his learning about new technologies and possible changes in what their organization offered. Due to the attitude of many of the founders to treat their organizations as their personal hobby, none were unaffected by changes or expansions in their organizations products.

Rubenson and Gupta (1996) postulated a negative association between the proliferation of the organization product line and the length of the tenure for the founder. In this research study, no association could be found between the length of a founder's tenure and the proliferation of the organization's product line.

Combining the three sub factors of firm size, organizational growth rate, and product proliferation towards the alignment of the founder's skills to the needs of the organization, the researcher has determined that this component of the Contingency Model for the Initial Succession does not apply to small organizations. During the interview process, it became clear that the founders purposefully controlled the organization so that they could always meet the needs of the organization.

Founder Adaptability. The second major area of the model deals with the ability of the founder to adapt to a changing organization. Rubenson and Gupta (1996) believed that during the growth phase of an organization the organization would require the CEO to perform in different roles than at the inception of the organization.

The amount of formal education that a founder has can equip them for new or unexpected events in the life of their organization. Research subject S3's view on education was:

> Because it opens your world to the different dynamics possible in transition planning, and multiple ways to operate a business, with and without participation. Most small businesses that don't have that level of formal education only see it one way, show up to work every day and they don't know the number of ways to skin this cat. But unless you're in that education stream, you're not exposed to that layered, incremental growth in a specific subject, and business is no different. (S3, personal communication, April 25, 2012)

The range of education encountered during the interviews was from a high school diploma to post graduate studies; on average, the founders held a bachelors degree. In only one case did the successor believe that the founder's lack of formal education lead to the need for succession. In all the other organizations, successors indicated that the founder learned everything they needed to know as they ran the business. The longest founder tenure of the sample population held a bachelors degree while one of the high school diploma founders had tenure of 50 years. Rubenson and Gupta (1996) postulated a positive association between the formal educational level achieved by the founder and his or her length of the tenure. In this research study, no association could be found between the length of a founder's tenure and his or her educational level.

Rubenson and Gupta (1996) postulated that as the organization transitioned from the startup phase into a mature company, the founder would have to adapt his or her behavior from that of an entrepreneur to that of a general manager. Many of the successors related that the founder started the current organization after having been employed for many years in a similar organization. With an average of 30 years of general management experience, most of the successors felt that the founders had good general management skills and that this was not a precipitating factor in the succession process.

Rubenson and Gupta (1996) postulated that for founders who were younger than 55 years of age, a positive association would be found between the number of years of general management and their length of the tenure. In this research study, the average age of the founder at the inception of their organization was 41 years old and the average tenure of the founder was slightly more than 25 years. Beckhard and Dyer (1983) wrote that the average tenure of a founder is approximately 24 years. In this research study, a positive association was found between the number of years of general management experience and the length of a founder's tenure.

As an organization expands in both head count and sales revenue, the number of unique tasks or functional experiences grows as well. Rubenson and Gupta (1996) articulated that a lack of diversity in the founder's functional experience could lead to the need for succession:

> Thus, a lack of functional diversity would seem to be a particular weakness in a founder who does not yet have a fully developed management team to help identify functional weaknesses in the process and bring balance to their use of resources. Conversely, founders with considerable functional diversity should have heightened awareness of, and respect for, all functions, an attribute that would permit the entrepreneur to more readily shift resources as weaknesses in the process are identified (p. 28).

In all but two of the organizations interviewed, the successors told how the founder had done everything in the organization as it had grown. Whether it was washing dishes in the restaurant, packing boxes in the warehouse, or balancing the books the founders at one point or another performed all the functions in the organization. Three of the founders had risen through the ranks of another similar organization and so had experienced the broad range of functional experiences twice. Only 1 of the 15 successors felt that the founder's lack of functional experience contributed to succession of the founder. All the other successors felt that due to the manageable size of the organization, the founders had sufficiently diverse functional experiences and it was therefore not a factor in the succession.

Rubenson and Gupta (1996) postulated a positive association between the proliferation of the organization's product line and the length of the tenure for the founder. In this research study, no association could be found between the length of a founder's tenure and the proliferation of the organization's product line.

In all but one of the interviews, the successors considered the founders to be experts in their fields. Some of the founders were active in their trade associations and one was even the president of his trade association. For many of the founders, their organization was also their hobby and as such, they kept a watchful eye on industry changes. Research subject S4 gave a typical answer when she spoke of how the founder acquired triple the amount of training that was necessary for his organization. Rubenson and Gupta (1996) felt that the more industry experience a founder had the more likely the organization would thrive:

> Clearly, prior industry familiarity suggest that a founder will enjoy longer tenure since he or she will be better able to understand and adapt to the needs of the new business, increasing the likelihood that it will develop successfully; i.e., the business is less likely to fail (p. 29).

Rubenson and Gupta (1996) postulated a positive association between the founder's length of tenure and the amount of relevant familiarity within the organizations industry; the interviews in this research study confirmed the positive association.

The second phase of the Contingency Model of the Initial Succession dealt with the ability of the founder to adapt to the changing needs of the organization. Three out of the four sub factors in this phase aligned with the propositions Rubenson and Gupta (1996) made about the need for a succession in the organization.

Impeding Succession. The third and final phase of Rubenson and Gupta (1996) model dealt with the ability of the founder to impede the succession. For this third phase, there are five sub factors: the dispersion of ownership, the percentage of insiders on the board of directors, a policy of promotion from within, a family dominated culture, and finally the amount of environment turbulence.

In the sample population for this study, only 3 of the founders possessed less than a controlling interest in the organization. The average percentage ownership for the entire sample population was 74%. During the course of the interviews, 14 of the successors indicated that the founders were in control of the timing of the initial succession. Rubenson and Gupta (1996) postulated a positive association between the founder's length of tenure and the degree of ownership by the founder; in this study, this positive association was confirmed.

Kerr and Werther (2008) suggested that in recent years the role of the board of directors has become much more participative in nature due to more vocal stockholders who are much more likely to hold the board responsible. In previous years it was more common to have either a weak or non-participative board that was reluctant to intervene in the case of a poorly performing CEO due to their allegiance to a CEO that was active in their election to the board (Kesner & Sebora, 1994; Nelson, 2003). Due to the majority shareholder position of the founders in this study's sample population, all but one of the founders could ignore the recommendations of the board. Many of the successors reported that the founders did in fact ignore the advice from the board. Rubenson and Gupta (1996) postulated a negative association between the founder's length of tenure and the number of outsider board of director members. In all but one of the organizations in this research study, the majority of board members were insiders that either worked for the organization or who were related to the founder; as a result there was a negative association between the percentage of outsider board members and tenure of the founders.

Rubenson and Gupta (1996) observed, "Thus, to the degree that the founder avoids bringing in outside managers, the firm develops more slowly and the founder correctly observes that there is no one prepared to take over leadership" (p. 30). As was noted earlier in this study, 9 out of the 15 organizations had policies of promoting people from within the organization when positions were vacated. Several of the successors openly admitted that their role as the next leader was due in large part to nepotism. For several of the successors they reported that they had jobs outside of the founder's organization before joining and thus had independent training which they felt help them to be qualified for the role of successor. Rubenson and Gupta (1996) postulated a positive association between a policy of promotion from within the organization and the founder's length of tenure. In the sample population for this research study, there was a weak positive association between a policy of promotion from within the organization and the founder's length of tenure.

Schein (1983) indicated that a founder could imply a negative attitude towards non-family managers with their expressed loyalty to family members. When this is combined with a belief from the founder that their children are inadequate for the CEO position, all possible succession candidates are eliminated (Rubenson & Gupta, 1996). For this study, 14 of the 15 successors interviewed indicated that the founder's family played a significant role in the organization. Ten out of the 15 successors were family members. Two of the 5 non-family member successors indicated that the founders had first chosen their son to take control of the organization but once the succession started, they changed their minds. Rubenson and Gupta (1996) postulated a positive association between the founder's length of tenure and degree to which the founder's family dominated the culture of the organization. A positive association was indeed observed in the course of this research study.

During periods of economic calm, a founder might be able to make large mistakes that go unnoticed or that can be ignored (Rubenson & Gupta, 1996). During periods of large economic upheavals, the founder can be under considerable pressure to pass the torch to new leadership and innovative practices. Eleven of the 15 successors described their industries as experiencing substantial turbulence prior to the start of the succession process. Some of them described as the turbulence as the worst they had seen in decades. Despite the bad economic conditions, several of the successors said that the founders in fact thrived on the turbulence and saw it as a challenge to overcome. Rubenson and Gupta (1996) postulated a negative association between the founder's length of tenure and degree of industry turbulence. In this research study, no negative association could be found between the length of a founder's tenure and the degree of industry turbulence. There might even be a basis for a slight positive association.

The third phase of the Contingency Model of the Initial Succession dealt with the ability of the founder to impede the succession. Three out of the five sub-factors in this final phase were firmly aligned with the predictions Rubenson and Gupta (1996) made about their model. One prediction about a sub-factor was observed to be weakly reversed and another was weakly aligned. Thus, the final phase of the model seemed to have weak explanatory value.

Did the Founders Plan for Succession

Only 40% of the founders had a plan in place for succession before the succession actually started. In the opinions of the successors, the founders often let the process of handing over control of the organization to them in a non-methodical manner. Of those founders who did plan the succession process, the successors were very pleased with the resulting process. In most cases, the founder’s primary concern for the succession process was how to extract their equity position in the organization in the most profitable way possible. Only 4 out of 15 successors related that the founder trained them to take over the responsibilities of the organization before their formal transition to being the new leader.

How Might the Succession Process Been Improved

When asked how the successors would have changed the succession process, the majority of them would have liked to have had a detailed succession plan with a checklist for completion. It was often the lament of the successors that the succession process took too long and no firm date was set for the official transfer of power. Four of the successors related that the founder’s vagueness as to when the successor was in charge often confused subordinates and undermined the confidence of the organization in the successor. In the case where the successor was a family member, several of the founders reversed the decisions of the successors even after granting them authority to make those decisions.

Themes Related to Research Question and Interview Questions

In addition to discovering if the Contingency Model of the Initial Succession (Rubenson & Gupta, 1996) was applicable to smaller organizations, this research also sought to discover other factors that might have affected the decision to go forward with the succession event. In the course of the 15 hours of interviews, several themes arose:

1. Founders were not thinking in terms of their legacy but were instead mostly concerned with how to cash out.
2. Founders did not plan for the succession until it was thrust upon them by illness, old age, or by their family.
3. Founders did whatever they wanted because they owned the majority shares.
4. Successors were not inclined to confront the founder.
5. Founders had a high level of self-identification with the business. They felt that they were the business.
6. Founders hung onto the organization because it was their hobby.

Cashing Out. In many cases, founders were thinking neither in terms of their legacy nor of the continuation of the firm after their departure. When first asked about the founder succession, many of the successors immediately started recounting how the founder was cashing out their equity positions. In fact, several of the successors who were in the founder's family did not think of themselves as really being in charge until they had inherited the founder's equity position. When the subject of planning for the succession became apparent, many of the founders were only thinking in terms of how to cash out of the business and not building an organization that would thrive once they left.

Many of the successors commented on how they had wished the founder would have prepared them more for the role of CEO. One successor went so far as to say that he had been "thrown to the wolves." For those founders who passed the leadership role to an offspring, the successors were expected to have absorbed by osmosis the knowledge and skills required to run the business.

Of those successors who said that they had a definite plan and that the plan had been executed well, they talked about the number of years that they had prepared themselves for the role. The successors indicated that they had become familiar with the many aspects of the business. One successor felt that it had been a good thing that the business had suffered a crisis during this preparatory time as it gave the founder and him a chance to work through the crisis together; the successor said it boosted his confidence greatly.

The day will never come. When the successors were asked about the planning that went into their becoming the next leader in the organization, they often replied that little to no planning had been done. The only reason that a succession happened at all in these cases was because the founder had suffered some sort of health scare or a family member strongly urged them to retire. A health scare had caused several of the founders to rethink their long-term plans for their life. One founder had a snow skiing accident, one firm had one of the co-founders die, and another founder starting having leg and back problems. In those moments of doubt about their future, family members were often the final straw that tipped the founder towards the process of succession. Ironically, the successors reported that once the founders did retire they did not look back with regret on the decision to retire. Many of the successors noted that the transition process took far longer than they had anticipated and would have preferred a shorter time span. It was as if the founders were paying lip service to the concept of succession but were not really that serious in the pursuit of completing it.

Ownership equals power. In several of the interviews, the successors mentioned that the founders simply did as they pleased. They did whatever they wanted because they owned the majority shares. Only one of the companies interviewed had a board of directors who had a majority of its members that would be considered as outsiders and it was only this organization that started the succession due to poor performance by the founder. In the majority of the cases when the board would make recommendations that ran contrary to the wishes of the founder, the founder would just ignore them.

During the course of the interviews, several of the successors who were known to the organization as the heir apparent noted that without a clear transition plan that included a time table and milestones for the succession the organization was often left in a state of confusion as to who was responsible for what. The successors laid the cause for this confusion squarely at the feet of the founders. Many of the founders never gave a clear message to the organization that the successor was the new leader and in many cases, the founders would intervene in day-to-day operations by reversing previously made decisions. As a result, an attitude of disrespect by the employees towards the successor was often inadvertently cultivated by the founder. This use of power to delay or reverse the succession process often left the successor in a power vacuum.

Successor timidity. In many of the interviews, the successor indicated that during the succession process they were inclined not to confront the founder on issues of the transfer of power and a timeline for the completion of the succession. They did not want to assert themselves until they were firmly in control. This often meant that successors left poor performing employees in place until well after the founder was no longer involved in the day-to-day operations of the firm. Once the successors felt safely in charge, they talked about “cleaning house” as a process of sweeping away employees the founder had kept on the payroll despite their need for replacement.

One successor discussed how the founder’s son had made several changes to the physically layout of the office space in the building. While the new layout was disliked by most of the employees and was considered by the successor as a hindrance to the performance of the organization, he is delaying any corrections until the ESOP buyout of the founder is complete. The high rate of timidity in confronting the founder could be attributed to family dynamics in 10 out of the 15 organizations interviewed.

Merged identities. Many of the successor indicated that the founders had a high level of self-identification with the business; the founders felt that they were the business. Rubenson & Gupta (1996) indicated that the founder can have great difficulty in letting go of their organization, “Most corporate leaders equate relinquishing organizational control with death — an ending — while others in the firm look forward to a new era — a beginning” (p. 21). Several of the founders had their surnames in the name of the organization. The successors that were the children of the founders related that the founders were so consumed with their organizations that they could rarely attend a family occasion without talking about the business. For all of the founders, it was their personal skills that were used to start their organizations and for many years the sole source of revenue.

It is their hobby. For many of the founders, their work in the organization they created was very enjoyable. For several of the founders, running their company was a second career in which they could now exercise control and direction. Several of the successors related how the founders treated the organization as their hobby. One successor said that the challenge of running the business was the reason that the founder got up in the morning. For most of the founders, they would have continued to work indefinitely if they could have. It was only if and when their passion or their health waned that the founders even considered passing the company on to someone else. Due the equity positions, of all but two of the founders were able to control the organization such that it never out grew their ability to control it. For several of the founders, it was only after the urging of their family members that the founders considered giving up their hobby.

Conclusion

In this study three research questions were explored: Is the Contingency Model of the Initial Succession proposed by Rubenson and Gupta (1996) transferable to organizations of smaller size and lower revenues, were the founders of small sized organizations planning for their eventual succession, and what other factors came into play beyond those outlined by Rubenson and Gupta (1996) during the succession process? This chapter reviewed the results of gathering and analyzing the answers to these three research questions. New data was gathered from the unstructured question section of the interview process and were categorized into several new themes.

After speaking with 15 different successors in many unrelated fields of business based on the Rubenson and Gupta (1996) Contingency Model of the Initial Succession, only 3 of the 12 sub-factors in the model scored higher than 5 out of 10 by the successors and thus to have had a significant influence in precipitating the succession event: The three sub-factors with significant influence were founder equity, a policy of promotion from within, and the influence of the family. Due to the equity position of the majority of the founders, they were able to set the pace and terms of their succession as they saw fit. In addition, due to the founders' ownership position, family members were often employed by the organization. The successors attributed the policy of promotion from within as the reason that they were chosen for the new leadership role as the founder exited their CEO positions. Finally, it was most often at the urging of family members that many of the founders put the succession process into motion.

Only 40% of the founders planned for their eventual succession. Of those founders who did plan for succession, most did not have a formal plan but had only acknowledged that a succession was needed. As a result, most of the 15 successors indicated that if they had an opportunity to go back and change the succession they would have had a firm timeline for the succession process, a detailed list of processes to take place, and the public support of the founder during the process.

Lastly, this study sought out additional factors that might have had an influence of the pacing of or the precipitation of the succession event. Six different themes arose during the course of the study:

1. Founders were not thinking in terms of legacy. They were only thinking in terms of how to cash out of the business.

2. They did not plan for the succession until it was thrust upon them by illness, old age, or by their family.
3. Founders did whatever they wanted because they owned the majority shares.
4. Successors were not inclined to confront the founder.
5. Founders had a high level of self-identification with the business. They felt that they were the business.
6. Founders hung onto the organization because it was their hobby.

All six of these themes affected the succession event for the 15 firms in this study in either the timing of the succession or in the steps that took place to complete it.

Chapter Five: Results

In this chapter the researcher will present the findings of the study, discuss the implications of results of the study as well as recommendations for founders, successors, and board members, discuss the possible limitations of the study, and finally give recommendations for further research on founder successions.

Discussion of Research Questions

The primary purpose of this study was to see if the Contingency Model of the Initial Succession was applicable to a different target population, namely small sized organizations. The researcher used a combination of structured and unstructured question during interviews of 15 CEO's about the succession process from the founder to the next organizational leader to answer the following research questions.

1) Is the contingency model of The Initial Succession proposed by Rubenson and Gupta (1996) transferable to organizations of smaller size and lower revenues?
2) Were the founders of small sized organizations planning for their eventual succession?
3) What other factors came into play beyond those outlined by Rubenson and Gupta (1996) during the succession process?

There were 14 face to face interviews with the next organizational leader of the companies in the study and one that was done via a telephone conversation. Each of the interviews were conducted at the companies location at a date and time of the leaders choosing. During the interviews the researcher encouraged the interviewees to express what they felt were the salient aspects of the founder transition.

Rubenson and Gupta's (1996) succession model starts with assumption that neither the organization nor the founder are in a static state. Over time the needs of the organization will change as it either grows or shrinks. The environment of the industry through technology changes, turbulence, or new regulations will place new demands on the founder as time goes by. Founders cannot stay young forever and they have their limits in how much they can change and grow. The interaction of these two dynamics according to Rubenson and Gupta (1996) can lead to the succession of the founder. Rubenson and Gupta (1996) also tell us that the first two contingences, change in the organization and the ability of the founder to adapt to a changing organization, can be objective evaluations as to the need for succession while the third contingency, the ability to impede the succession, can be emotional and override the first two contingencies.

The changing needs of the organization. In the first contingency, the changing needs of the organization, there are three sub-factors that can be summarized as skill alignment between the founder and the organization. In many small organizations the founder is the first employee and the number of employees will stay less than 10 employees for several years. As the first employee the founder is performing most if not all of the services that the organization offers. As a result, organizational growth is dependent on the founder's ability to perform these tasks. With only a handful of employees the size of the organization and its growth rate is directly related to founder's desire or ability to delegate tasks. Founders start a business because it is something they enjoy doing or it is something they feel they can excel at.

This enjoyment of performing the tasks is the basis of theme T6, namely that founders treat their organization as their personal hobby. With the attitude of a hobby, founders will actively pursue new knowledge in order to stay abreast of the latest trends in the industry. Unfortunately, growing their organization will mean that a founder would have to give up their hobby for the less attractive tasks of general management. As a result, most founders only allow their organizations to grow at a slow pace which is often at the same pace as the general economy grows or contracts. In this study many of the successors made comments that their revenue streams and employee counts closely matched the prevailing economic conditions.

In many cases the industry that an organization exists in will change due to technology or new regulations. These changes in the industry often spur the organization to offer new products or at the very least to expand the current product line. Founders will only stay up with changes in their field that they felt comfortable in. Often it is only at the urging of the successor that the product offerings for an organization are changed or expanded. In speaking to several of the successors, the product expansion was either instigated by them or was heavily encouraged by them. Usually it was not the founder who sees the need for new products or services but rather it is the successor who sees the need to expand beyond the founder's comfort zone. This is most often the case when the successor is a family member.

In the course of this research study it has become apparent that due to the overwhelming ownership position of the founders they are able to control the growth, size, and complexity of their organization so that it was always manageable. This result would seem to confirm Davil's (2005) position that the personal characteristics of founders are ill-suited for the management of larger organizations. Founders run their organizations as they see fit. It is also very typical behavior for a founder to treat the organization as their personal property, even when the employee count is in the hundreds. It is not uncommon for founders to lose sight of the fact that there are other stakeholders in the organization besides themselves. If a founder's belief is that slow and steady was preferable to radical change then no large risks will be taken. Especially with founders that lead an organization for over 30 years, phrases such as steady Eddie are often applied to them. Which is to say that long tenured founders often adopt a conservative attitude about their business.

The ability of the founder to adapt. Rubenson and Gupta's second contingency, the ability of the founder to adapt, has four sub-factors: education, functional experiences, general management experience, and industry familiarity. As was noted earlier in this paper the founder's ability to control the organization limits their need to adapt. Most founders intentionally start their organizations because they feel that they are capable of running them. Learning on the job is a prerequisite for most founders. For many founders, having an advanced degree gives them very little advantage in starting and running a new business. Learning on the job is often the only education a founder receives in the running of their organization. There are many a multi-millionaire founders who only have a high school diploma. Many of the successors in this study attributed the success of the founders to their passion for the organization rather than a formal education.

As was mentioned earlier all the founders in this study started off performing all the functions of the organization from the beginning. For some founders, their organization is a second career. Having spent a decade or two working their way up through a previous organization a founders are often well equipped to handle the challenges of their new organization. Rubenson and Gupta (1996) postulated that having a lack of diverse functional experiences would limit the ability of the founders to adapt. Given that Rubenson and Gupta's (1996) sample population was exclusively Fortune 1000 companies, it would seem reasonable that the size of the organizations would have prevented their founders from knowing the details of all the departments in their organizations. The familiarity of the small sized organizational founder with the inner workings of their own companies combined with their previous work experiences substantially enhances their ability to adapt.

As an organization grows so does the need for general management skills. Rubenson and Gupta (1996) proposed that for founders who were younger than 55 years of age, they might have their tenures cut short due to a lack of general management skills. Beckhard and Dyer (1983) inform us that the average number of years that a founder runs a business is approximately 24 years. With the ownership position firmly in the control of founders of small organizations, the founder often experiences much longer tenure than average. Additionally, founders of small sized organizations are for the most part exempted from the demands of general management as they are much closer to the day to day operations of the organization. Although the results of this sub-factor in this study appear to agree with Rubenson and Gupta's (1996) postulation, founders will control the size and complexity of the organization such that they never have a problem managing the organization. By intentionally keeping the organization small this genre of founder is able to utilize more of their entrepreneurial skills and thus being able to avoid having to transition into a full-fledged general manager. Davila (2005) tells us that a CEO might be replaced due to their inability to enable formal order to the organization. Very often the successor will have superior management skills to that of the founder and it is the successor who then brings structure and order to the organization.

Rubenson and Gupta (1996) said that a lack of industry familiarity could also contribute to the need for a founder's succession. Many small organizational founders stay involved in the customer facing aspects of their organizations. Whether it was from participating in sales or in the production of the services offered, founders tend to stay in constant contact with changes and trends in their respective industries. As was noted in theme T6, the organization was the founder's hobby. For the founders the services or products that the organization provides are of keen interest to them. As a result of this keen interest it is not uncommon for founders to participate in industry functions such as trade associations, standards bodies, or technical forums. Successful founders often become experts and well known leaders in their respective fields. Many successors use the established reputation of the founder as way to continue the growth sales for the organization after the initial leadership transition.

The ability of the founder to impede the succession. In Rubenson and Gupta's (1996) model of the Initial Succession the authors describe how the ability of the founder to impede the succession can over-ride the need for it. The founder's ability to impede was elaborated in five sub-factors: how dispersed the ownership was, the percentage of inside board members, whether or not a policy of promotion from within existed, how much the founder's family dominated the culture of the organization, and lastly the amount of environmental turbulence.

For the majority of small organization founders their equity positions allow them to completely control the succession process. Smaller organizations require less capitalization than larger ones. Founders of smaller organizations can often self fund and therefore reduce their dependency on outside investors. If there are other owners in smaller organizations it is often the founder's family members who hold the remaining equity positions. With majority ownership founders can exercise uninhibited control over their organizations.

Another aspect of the control this genre of founders expresses is the way in which they select the members for the board of directors. Small sized organizational founders will often fill their boards with family members, friends or employees of the organization. Due to a lack of formal structure in most small organizations founders often create a board of advisors rather than a formal board that they would then be answerable to. As was noted in theme T3, founders often did as they pleased rather than heed the advice from the board. As a result, the boards of these smaller organizations are often ineffectual at best. The only time that a founder cannot ignore the board is when there are outside investors such that the founder does not own a majority of the equity.

This study confirmed Kansikas and Kuhmonen (2008) assertion that in smaller sized organizations founders often enlist family members to work in the organization. Rubenson and Gupta (1996) reasoned that founders often surround themselves with people that support them in their ideas and decisions. Founders who are willing to tolerate outside opinions and ideas are thus more likely to listen to others about the need for changes in leadership. Having a policy of promotion from within for small organizations may have more to do a lack of resources than a purposeful decision to develop inside talent. Hiring an outside search organization can cost as much as 30% of the executives annual salary. If the founder has family members in the firm they are often working for lower wages than an outside executive would demand. For many founders of small organizations, the search for outside talent could just be too high a price to pay given their generally conservative business nature.

Rubenson and Gupta (1996) reasoned that there were two extremes of a spectrum that a founder might inhabit. The first being that a founder had strong patriarchal tendencies and as such would have given key management positions to their family members as they would be considered to have more invested in the organization than outsiders. The other extreme was that founders would not be interested in building an organization for their children and as such would be more open to choosing the best successor whether it was a family member or not. Due to normally long hours that a founder puts into starting a business, they often have to sacrifice time with their family for business priorities. It is quite common for the founder's children to have no interest in working in the family business. As a result founders may often have to turn to trusted employees to take the new role of leadership.

In this study the successors reported that their organizations were heavily influenced by family members in 14 out of 15 cases. Despite this high result the longevity of the founder's tenure was not attributed by the successors to the founder using their head of the family status to delay their succession. Instead the founders were more often than not using their position to influence a family member to be the next organizational leader. In many cases the founder's first choice did not work out and another family member was offered the leadership position instead. What was of greater influence in the succession was not the founder trying to use their family position to delay but rather the children or spouse of the founder asking them to step down.

Rubenson and Gupta's (1996) final contingency dealt with environment turbulence. Many founders thrive on turbulence, they see it as more of an opportunity than a threat. Because of the smaller size of the organizations in this study the founders were regularly involved in the day to day operations. It was often their passion for the operation of the business that gave them satisfaction when they overcame obstacles. For the founders industry turbulence was a welcome challenge as it provided opportunities for them to excel. During the interviews, several of the successors indicated that at the time of succession their industries were experiencing substantial turbulence and yet this turbulence had little to no effect on the succession.

Only 6 of the 12 sub-factors in the model for the initial succession were confirmed in the sample population of this study. After interviewing 15 successors of small organizations it is the authors conclusion that the proposed model by Rubenson and Gupta (1996) as it is currently constructed had minimal explanatory power in the target population of this study.

Discussion of Discovered Themes

Despite high involvement of family members in the organizations in this study many of the successors noted that the founders were more concerned with cashing out than making sure the organization continued once they were gone. This concern with cashing out was classified as theme T1 in the previous chapter. After many years of running their organizations most of the founders in this study either completely owned or at least held a majority of the equity of the organization. For several of the founders, their way of cashing out of the organization was to create an employee stock option plan (ESOP). Several of the successors reported that they wouldn't feel like the real leader of the organization until the ESOP plan was fully funded and the founder had sold their stock to the ESOP. Several of the founders also used the funding of the ESOP as the trigger point for completing the succession. In other cases the founders simply transferred ownership to a family member in exchange for cash to fund their retirement. Many of the successors told of how the founders had spent more time working on how to maximize their financial gain than time on making sure the succession process went well.

Many of the organization in this study incorporated the surname of the founder in to the organizations name. This behavior of a founder naming the organization after themselves is a normal outcome of the fact that in the beginning of these organizations the founder is the only employee and the only one providing either the product or the service. This finding is in line with those reported by Brown and Coverley (1999) in that the founders considered themselves to be essential to the success of the business. As a result of many years of operating the organization as an extension of themselves the founders seemed to act as if they were the organization. The self identification theme was termed theme T5 in the previous chapter. For many of the founders the act of succession seemed like tearing a part of their body off. Several of the successors reported that their founders never even considered retiring. With this high degree of self identification the founders delayed even starting the succession planning as it would have meant putting an end to a significant part of the founders life.

Due to the lack of desire for many of the founders to end their leadership role theme T2 was identified as the succession being brought on by illness, old age, or a family member. After decades of running their organizations it is often a family member who finally persuades a founder to retire. For many of the founders the idea of retirement never even occurred to them until they had an accident or suffered a major medical setback. During their recovery time they involuntarily had to let go of the day to day operation of the organization. The successors reported that it was during this recovery time that the founders either contemplated their future or at least were now willing to listen to the successor discuss with them their plans for retirement. One of the founders in this study after 50 years of running their organization is still resisting the succession process.

This behavior of control by the founders was the basis for the themes T3, T4, and T6. Theme T3's behavior was identified as the founder doing whatever they wanted because they held a controlling interest in the organization. In most cases the T3 behavior is expressed by the founder choosing the direction and strategies of the organization. But it becomes most evident during the succession process in which they at some point have to give up control. Due to the overwhelming equity position of most of the founders, their day of succession is theirs to decide. Many of the founders of small organizations make decisions with little regard to the input from board members, successors, or investors. Founders did not feel that they are accountable to anyone except themselves. This lack of accountability lead to some of the founders making bad business decisions that at times endangered the life of the organization. For many of the founders the implication of the lack of accountability is that founders often made decisions based on their instincts and at times for their own self interests rather than the greater good of the organization. The behavior of the founders in this study confirmed Rubenson and Gupta's (1996) concept that a founder could delay succession because of their ownership position.

Because of the total control of the founder to select or change the successor at any time successors tend to take a passive position on the subject of the succession. Confronting the founder who is delaying the succession process can cost a potential successor their position. As was explained in chapter four, theme T4 is the behavior of successors is to not confront the founder about the timing or conditions of the succession. With a firm grip on the control of the organization, the successors tend to let the founder take the lead. As a result many successors are not satisfied with the process and generally feel unprepared for their new role as the organizational leader.

Theme T6 was the expressed behavior of the founder to hold onto their leadership role in the organization because it was their hobby. Very few founders have outside interests as their companies totally consume them; it becomes their best friend. For founders letting go of their organization would mean letting go of the thing that they had poured their lives into for many years. If the successor is a family member then it is quite possible that the founder will feel that they still have a right to coming back into the organization and start giving orders even after passing on the leadership role to their child. With such a strong interest in the organization founders are very reluctant to give up control.

Recommendations

There are three groups of individuals that the results of this research study have implications for: the founder, the successor, and members of the board. The following sections of this dissertation will discuss these implications and give recommendations for improving the succession process for each of the groups.

Founders. Rubenson and Gupta‘s model for the initial succession (1996) was primarily based on the concept that founders at some point and time are no longer capable of meeting the needs of the organization and therefore a founder succession is indicated. As an organization progresses though the stages of growth, the relevancy of an entrepreneurs skill fades and the need for the skill set of a general manager grows. It has been reported in the literature by multiple authors (Davila, 2005; Greiner, 1998; Mintzberg, 1973;) that the skill set of an entrepreneur is not the same skill set as that of a general manager. It is often during the stages of growth for an organization that the founder finds themselves under stress to meet the new needs of the organization that they are not naturally gifted to provide.

Several recommendations for founders have come out of this study:

- They need to accept that their days as CEO are numbered.
- They need to decide how long they want to run the organization.
- They need to not stand in the way of organizational growth.
- They need to make a real succession plan.
- They need to make an emergency succession plan.
- They need to make a plan for the rest of their life.
- They need to coach their successor

Founders need to remember that time waits for no man. They need to accept the concept that at some point they will be handing over the company to someone else. At some point there will come a moment when the organization would be better off in the hands of someone else. The hand over to the next leader can either be done on their own terms or on someone else’s. They might choose at some point in the future to sell the business rather than handing over the leadership role to someone new. There is also the distinct possible that they will either expire early or be incapacitated to the point that they are no longer able to run the business. If there is no plan in place for succession when the founder expires then there is the possibility that the probate court will be the one deciding who will own the business.

Decide how long the founder wants to run the company. Generally speaking founders of small organizations have a controlling equity position and therefore do not have to leave the organization until they want to. This can take the form of:

1. The founder setting their *retirement* in financial terms, as in a certain cash-out value for their shares in the company. They might also pick a particular revenue number for the company. Beware of setting numeric values that are not reasonable. Have at least one other person with accounting expertise review the founder's financial goals to make sure they have picked an achievable number.
2. Set the retirement as a date on the calendar. Use this date as a point to work backward from so that a starting point for the succession can take place. Even if there is a financial aspect to the retirement it is highly recommended that the founder pick a date at which they will retire even if the financial goals are not met.

Make an actual succession plan. Rather than just giving the concept lip service, the founder along with his management team needs to actually create one. Even if the first one created is not a good one it will at least get the founder thinking about how to build one that more to their liking. One way to start the process is to imagine what it would take for the organization to run without the founder for three months. Pretend that the founder has been seriously injured such that they are unable to even have a coherent conversation with their staff .

1. List of all the duties that the founder performs on a daily, weekly, monthly, and annual basis.
2. List all of the important clients of the firm. Create a list of which clients need to be paid attention to and which ones can be gotten to later.
3. List all of the important things that will be coming up soon and that need to be taken care of. (contracts, client meetings, tax audits, etc.)
4. Create an ordered list of people the founder would want to run the organization for them. These individuals need to be people that they trust to make important financial commitments on their behalf. Just doing this one step alone can reveal how unprepared an organization is for succession.
5. Create a checklist for the transfer of power and responsibilities to the successor. Many authors have used the metaphor of a relay race to describe the succession process. The runner in front is suppose speed up so that he matches the speed of the runner in back. Once the two runners are in rhythm the baton is passed and the runner in back slows to a stop while the runner in front sprints away. A sudden transition of power and responsibilities creates undue stress on the organization and the successor. It would be just like asking the front runner in a relay race to take the baton at a dead stop and expect them to instantly sprint down the lane. A better approach is to gradually transfer the tasks of the CEO to the successor such that they can

learn them in a controlled manner. Once all of the roles have been transferred and the successor is in effect the *acting CEO*, then officially transfer the title to them.

6. If possible, reduce the founder's ownership to a minority position before the actual date of the succession. The reduction in equity can be a part of the funding plan for their retirement. More importantly successors face the very real threat of a founder that might reverse themselves and re-assume the role of CEO. Succession can take upwards of five or more years to complete and a successor must weigh the reality of the succession taking place versus their opportunities at other organizations. Even family members are not guaranteed to wait an indefinite amount of time before taking over the firm.

Make an emergency succession plan. As morbid as this sounds the organization needs to have one in place just in case the founder suddenly passes away. There is a very real concern by family members that a sudden death would leave them in the position of having to run the family business with little to no preparation. Only 3 in 10 organization survive that transition from one generation to the next. Adding in the stress of suddenly losing the founder with no preparation reduces the chances for success even more.

Make a plan for what the founder will be doing after leaving the CEO position to someone else. Founders tend to be very energetic and driven people. It is very hard for them to turn off their competitive nature. It would be much easier for a founder to either start or join another organization than to simply retire. Another possibility is for the founder to join one or more board of directors. If the founder retains a sizeable equity position and feels that they can still contribute to the organization then they might choose to become the chairmen of the board of the organization. Lastly it might be that the founder wants to simply play golf four days a week. If the founder is unable to visualize what their retirement will look like then it will be very difficult for them to pursue a succession plan.

Don’t stand in the way of organizational growth. As counterintuitive as this might sound founders think of themselves as the organization. With this high degree of self identification comes the concept of limiting the organization so that it is manageable. By limiting the size and complexity of the organization a founder can always stay relevant. If the organization is presented with opportunities that would can grow and expand beyond the founder’s abilities then these should be taken as serious signals that a succession should happen.

Founders need to coach their successors. For most of the founders in this study there were no formal leadership development programs. The lack of leadership development plans indicate a lack of interest by the founder in growing their businesses beyond themselves. Founders need to plan for the next phase of the organizations life after the so that years later the organization will be able to look back with gratitude at their efforts rather than relief that they are finally gone. Making sure that the next leader is properly prepared increases the organizations chances that it will thrive after the transition.

It is also in the personal best interests of the founders to have the company running well at their departure as this would maximize their payout upon retirement. In most cases the next leader will not be utilizing the same skill set as the founder who often possess more entrepreneurial skills than general management skills. The successor will more than likely be tasked with growing and formalizing the organization.

In many cases the founders did little to no planning for the succession. Only 40% of the successors in this study knew of a succession plan for their organization and even then most of the successors felt that the plan was minimalistic at best. The lack of planning observed in this study is in line with the assertion by Carey and Ogden (2000) that most organizations do not have a succession plan in place. For many of the founders the organization they started is so personal to them that they do not even consider a time in which they won't be running it. The implication of this is that successions are often flawed in their execution and often miss important steps due to a half hearted attempt by the founder.

Successors. As was noted in the previous section, 60% of the time successions are not planned for. Successors need to realized that a founder is emotionally attached to their organization; it is their child. They have birthed it and nurtured it for many years. Even though the founder might have started the succession process they still might not be emotionally ready to finish it. Successors should not be surprised if the founder seems to be mercurial in their behavior as they go through the process of letting go. Letting go of their organization is emotionally painful.

Several recommendations for potential successors came out of this study:

- Make sure the founder really intends to leave one day.
- Make sure you are the successor and not the runner up.
- Establish a plan for the succession even if the time for transition may be several years in the future.

- Ask for mentorship from the founder.
- Be vigilant in their monitoring of the changing needs of the organization.
- Reduce the founder’s equity.
- Confront the founder about succession delays.

Founders tend to very myopic concerning their organization. For them the organization is their hobby, they live in the present and enjoy every day they come to work. Thinking about the process of letting go will be very hard for them. Founders are used to being introduced as the president of their organization; people give them the seat at the head of the table. No matter what a founder may say, after 20 plus years of being the CEO they will have become accustomed to a certain level of prestige and power. The successor needs to assess just how likely the founder will be willing to give up their position.

One way to assess the founder’s willingness to leave is to start asking them what their plans are for 10 to 15 years from now. If the founder’s plans are to still be running the company then the successor will have to decide if they want to wait that long. Qualified successors might see that the transition process is not proceeding at a pace that is in line with their career goals. A slow succession process combined with what Schein (1983) calls a negative attitude towards non-family managers can contribute to an increase in management turnover. The increased turnover might then be a reinforcement of the founder’s belief that they are the only one left that is capable of running the organization.

Founders have multiple ways of choosing successors. For many the assumption is that a family member will assume control of the family business. Other founders knowing that their children have no passion for the business then search inside the organization for a likely candidate. One of the down sides to having a family member take over a small business is that the founder often makes the assumption that their children will naturally understand the idiosyncrasies of the business without having to teach them. This lack of training often leads to an increased level of stress for the successors. Another problem that arises is the assumption of some family members that because they are children of the founder the role of CEO will fall to them. The potential successor needs to make sure that they are truly the one that the founder has chosen . Otherwise organizational strife can ensue due to conflicting messages from the founder and from the potential successors.

In order to reduce any confusion in the leadership transition a clearly laid out succession plan needs to be established. A plan needs to be established even if the time for transition may be several years in the future. The plan should include:

1. A firm timetable for the succession process. The timetable start point can be some time in the future but the maximum length of time for the entire transition process need to be fixed. Having a timetable with no fixed ending point is no better than having no time table at all.
2. A detailed list of responsibilities that will be transferred to the successor. Very often a CEO does not realize everything they do and creating a list of everything that needs to be done can bring clarity to the situation.
3. Companywide communications by the founder that a transition is in place. One of the worse things that can happen in an organization is to create rumors. If the successor starts doing things that founder use to do without the founder

publicly announcing the transition then others in the organization might not be able to discern who is in charge and who is not.

4. Public demonstrations of the founder's support for the successor. One of the best things that the founder can do for the succession process to succeed is to publically acknowledge the successor. Reducing ambiguity as to who the new leader of the organization will be reduces the chances for the founder to inadvertently undermining the authority of the successor.
5. An agreed upon training program between the founder and successor that includes all the salient aspects of running the organization. If the successor is new to the organization then they might not be familiar with all the aspects of the organization. As was mentioned in a previous section of this paper, the crucial timing of a relay race is to make sure that the new runner comes up to the same speed as the current runner so that the passing of the baton is as smooth as possible. Having a training process in place reduces the chances for a misstep during the transition.
6. A clear definition of the founder's role after the succession has taken place. Without a clear definition the founder will be left in a state limbo as to their relationship with the organization that they birthed. For some founders, they will go onto do something else and never look back. For others they will want to stick around in some capacity either as the chairman of the board or as a paid consultant. Even if the founder eventually does takes on a different role than what was defined, having something to look forward to will give them a goal to achieve.

With the founder's lack of desire to relinquish control the implication for the successor is that a founder will not see the need to train a successor to take over their position. Due to this lack of planning successors were often unprepared to handle the new responsibilities of running the organization.

Because of a founder's natural desire to control their organization a successor needs to be vigilant in their monitoring of the changing needs of the organization. In the interests of stability and risk reduction a founder might not pursue opportunities that would require the organization to grow. The successor may suggest to the founder that these missed opportunities might be indications that a change in leadership could be needed if the organization is to continue to thrive.

Due to the power of family members to help motivate the founder to retire it would in the best interests of the successor to, if possible, involve them in the succession process. This research has indicated that family members were often the final factor in a founder's decision to pass the baton to the next leader of the organization. Family members who are succession candidates need to know that unless the founder reduces their equity position to less than a controlling interest their succession will be at the whim of the founder. Part of the succession process should be that the founder's equity position falls below 50% early in the process. Having a minority ownership position will insure that the founder is unable to back out of the succession process at the last moment or have the ability stall it.

If the founder introduces delays in implementing the succession then the successor needs to confront them about it. It is normal for a founder to hesitant about letting go of their organization. Unfortunately for the successor, founders often have controlling ownership in their organization and they are used to doing things as they see fit. Silence on the part of management about succession delays can lead to a founder over staying their usefulness and possibly causing harm to the organization. The successor needs to make sure that the founder understands how their decision to delay the leadership transfer can cause employee confusion, possible morale issues, and that the successor might seek other opportunities in other organizations. There are risks in confronting the founder about delays but there are also risks to the organization if the transfer doesn't happen in a timely manner.

Founders often cannot conceive of what they would be doing after retiring from the CEO position. As a motivator for the founder, the successor should define as part of the succession process what the new role would be for the founder. For many of the founders in this study they simply cashed some portion of their equity out and retired. Some of the founders stayed involved with the business in a limited role, while others joined the board of directors as the chairman. Helping the founder visualize what their new life will be like could in some cases remove the last obstacle for the succession to proceed.

Board Members. Most founders in this study were characterized as strong willed and charismatic. The reason many board members had their positions was more often due to the founder's influences than the representation of an investor. Board members in these positions naturally felt some obligation to the founder, but their primary responsibility is to the organization. Additionally the equity position of most of the founders in this study reduced the role of many board members to that of advisors.

Naveen (2006) tells us that one of the primary responsibilities of the founder and board of directors is the selection of a successor that aligns with the strategic direction of the organization and who can keep the organization moving forward after succession. One recommendation for board members would be to bring up the concept of successor selection years before it is needed. An early discussion about succession would allow the adequate training of the successor before the process is needed.

The board members for an organization are in a unique position to detect the changing needs of the organization due to their outside perspective. It is one of the primary responsibilities of the current CEO and board of directors to search for succession candidates. When it comes to succession a board member can serve both the founder who gave them their position and also the organization by making sure that the transition happens at the appropriate time and is well planned. Considering that the founders often have a controlling interest in their organization and have no legal obligation to obey the board, members of the board would do well to work with the founder to find a good candidate for the succession long before there is a need for one. Many of the founders in this study expected to pass the business onto their children. This author recommends that board members make sure that the heirs are ready for the job.

Limitations of the Study

According to census data prepared by the U.S. Department of Commerce (2009) the total number of firms in the United States that are classified as small business employers is 5,767,306. A small employer, according to the same report by the U.S. Department of Commerce (2009) , is one with less than 500 employees. Given that the approximate life span of a business is 24 years (Beckhard & Dyer, 1983), the number of founder transitions in the United States each year is quite large. This research project was limited because only 15 founder successions were studied in the southern California area; in addition none of the firms were publicly owned. This small number of interviews could have introduced three issues. The first being a regional bias in that only companies in the Southern California area were interviewed. The second being the sample size was far less than 1% of the total population of small businesses. Finally the sampling methodology of having the Presidents of Chamber of Commerce organizations prepare lists of recommended companies for inclusion in the study could have excluded more representative organizations from this research.

Even though the headquarters for the companies included in this study were located in Southern California, seven of the companies had branch offices in major metropolitan areas across the United States; one company even had offices in Europe. The founders traveled to and worked in each of the branch offices. Three of the founders that did not have multi-state organizations were extensively involved in trade organizations that exposed them to similar companies in other parts of the United States. Additionally many of the founders had previously worked for large commercial organizations in other states. All of these factors combined would seem to mitigate the behaviors of the founders that might be localized to the Southern California area of the United States and thus possibly introduce a sampling bias.

According to a formula given by Krejcie and Morgan (1970) the number of samples needed for a 95% confidence level for a finite population of 5,767,306 would require a sample size of at least 384 companies. Assuming that the same level of success was maintained that was achieved in reaching the 15 in this study companies was maintained in acquiring 384 interviews, the number of Chamber of Commerce Presidents that would be need to be contacted would be 2,867 and it would take 154 months to contact and complete the interviews. As the reader might surmise a project of this undertaking is outside the scope of any dissertation research study.

As for the sampling methodology, a list of founder successions is not maintained by any public agency that the researcher could find. The vast majority of founder successions are done in companies that are not publicly traded and therefore are not required submit any documentation of the leadership change. Given the low return rate of two percent on unsolicited emails and letters requesting participation in a research study, a mass email of at least 19,200 would be needed to achieve 384 interviews. The only viable way to locate organizations that have had a founder transition was to a combination of cluster and snowball sampling. According to Patten (2000) cluster sampling utilizes drawing from groups of possible participants rather than from a random group of participants. In the case of this study the sample groups were organizations that belonged to the same local Chamber of Commerce due to the fact that the presidents of these Chambers were the ones suggesting who would be a good candidate for the study. Snowball or chain referral sampling is a method by which participants are asked to suggest other people who might participate in the study (Creswell, 2002; McMillan & Schumacher, 2006). As was noted in chapter four, 5 of the 15 participants were added to the study via snowball sampling.

It was not the intention of this study to determine the viability of the organizations that went through their successions. Rubenson and Gupta’s (1996) Contingency Model of the Initial Succession is meant to indicate whether or not a succession is needed and if the founder could delay succession. The data obtained by Rubenson and Gupta's (1996) were public records of publicly held companies. This research's primary goal was intended to determine if Rubenson and Gupta's (1996) model could be used in smaller organizations. Given that smaller organizations are often not publicly held, their financial records are normally confidential and therefore difficult to obtain. Additionally, privately held organizations that have failed are generally unresponsive to research inquiries.

Lastly, the solicited perceptions in this study concerning the effect of the 12 sub-factors in precipitating the succession event were from the successors and not from the founders. It is acknowledged that ultimately only the founder really knows why they behaved as they did during the succession and what was really important to them. It was the intention of the researcher to interview the successors rather than the founders because the researcher believed that the successors would be less inclined to shade the truth about the circumstances of the succession than the founders. Additionally the founders might have died or would be much more difficult to contact than the successors.

Recommendations for Future Research

Based on information that was acquired during this qualitative study the following is a list of recommendations for further research:

- Conduct a study that would help to determine how often a founder identifies themselves as the organization. In the course of this research a theme emerged that the founder often considered themselves to be the organization and therefore succession would be akin to the death of the organization. It was as if the founders felt that without their presence there was no reason for the organization to exist.

- Conduct a study with financial advisors as to the frequency with which the concept of leadership development for the succession is presented to their clients in addition to a financial plan. During the interview sessions the successors often complained that the founders did little if any training with the successors as to how to run the organization. Of the successors that said the transition went well, everyone of them complimented the founder on the effort that they expended in teaching them the details of how to run the business. One even successor even went on to say how great it was that he and the founder were working side by side during some very rough times. It gave the successor a large measure of confidence went the leadership role was officially passed to him.
- Re-conduct the study with only founders who hold a minority equity position with the organization. In this sample population only one of the organizations had venture capital investors such that the founder held a minority equity position. Due to the ownership position of most of the founders they were able to sidestep any outside influences. This was the primary reason that Rubenson and Gupta's (1996) Contingency Model of the Initial Succession lacked explanatory power.
- Conduct another study where both the successors and the founder's perceptions concerning Rubenson and Gupta's (1996) twelve sub-factors are compared. As was noted in the limitations section, ultimately only the founder knows what motivated them to proceed with the initial succession. Contrasting the opinions of the first and second leaders in the organization might illuminate fiction points during the transition that neither leader were aware of and thus lead to improved transition processes.

Conclusions

This study was conducted in order to answer three questions:

1) Is the Contingency Model of the Initial Succession proposed by Rubenson and Gupta (1996) transferable to organizations of smaller size and lower revenues?
2) Were the founders of small sized organizations planning for their eventual succession?
3) What other factors came into play beyond those outlined by Rubenson and Gupta (1996) during the succession process?

In the course of this study it has been determined that due to the large ownership positions of the founders in small organizations that the Contingency Model for the Initial Succession (Rubenson & Gupta, 1996) does not really apply. It was also discovered that the founders of small organizations in this study only planned for their succession 40% of the time. This low rate of succession planning by the founders in this study is in line with the assertion of Brown and Coverley (1999) that very few organizations actual do any succession. This study also found that a founder succession was more often initiated by illness, old age, or family members. Six more factors came to the surface during this study that were outside of the 12 suggested by Rubenson and Gupta (1996) and warrant further investigation as to what degree they play a part in the succession of a founder.

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APPENDIX A

Interview Questions

1) Is the company a public company?

2) Has a transition between the founder and a new organizational leader been completed within last past three years?

3) Is the organization currently in transition from the founder to a new organizational leader?

4) Age of the founder at the time of transition?

5) Current age of the founder?

6) Number of years the founder was in control of the organization?

7) Size of organization at the time of transition?

    a. How important was this in the succession event?

    b. Why or why not?

8) What was been the overall rate of growth for the organization during the founder's tenure?

    a. How important was this in the succession event?

    b. Why or why not?

9) What was been the growth in the number of employees?

10) What was been the growth in the sales revenue?

11) What was been the growth in the number of customers?

12) If a public company, how many years passed before the organization went public?

13) During the tenure of the founder how much has the initial product offering or service expanded or changed?

   a. How important was this in the succession event?

   b. Why or why not?

14) What level of formal education has the founder achieved before the transition?

   a. How important was this in the succession event?

   b. Why or why not?

15) How many years of general management experience does/did the founder have at the time of transition?

   a. How important was this in the succession event?

   b. Why or why not?

16) How varied was the functional experience of the founder at the time of management?

   a. How important was this in the succession event?

   b. Why or why not?

17) How much relevant industry experience did the founder have at the time of transition?

   a. How important was this in the succession event?

   b. Why or why not?

18) How dispersed was the ownership of the firm at the time of transition?

   a. How important was this in the succession event?

   b. Why or why not?

19) What percentage of the board of directors are neither related to the founder in some way or would not be consider current employees of the firm?

    a. How important was this in the succession event?

    b. Why or why not?

20) Is there a policy of promotion from within the company for recently vacated positions?

    a. How important was this in the succession event?

    b. Why or why not?

21) How much does the founder's' family influences the culture of the organization?

    a. How important was this in the succession event?

    b. Why or why not?

22) How turbulent was the industry at the time of transition?

    a. How important was this in the succession event?

    b. Why or why not?

23) What planning, if any, was done prior to the need for the succession?

24) What factors or situations do you believe triggered the appointment of a new leader in this organization?

25) What would you have done differently to improve the succession process?

APPENDIX B

Informed Consent Form

INFORMED CONSENT FOR PARTICIPATION IN RESEARCH ACTIVITIES

Participant:
____

Principal Investigator:
____

Title of Project: *FOUNDER SUCCESSION IN SMALL BUSINESSES*

1. I,______________________________________, agree to participate in the research study being conducted by ______________________ under the direction of ____.

2. I understand that the overall purpose of this research is to investigate the applicability of the Contingency Model of Founder Succession to small organizations.

3. I understand that my participation will be to answer a series of questions during an approximately one hour interview about the founder succession process that occurred in my organization. The interview will take place at the time and location of my choosing.

4. I understand that the interview consist of approximately 25 questions. The interview will be digitally recorded so that it can be later transcribed. If during the transcription process an answer is determined to be difficult to understand then a follow-up call will be conducted in order to clarify the answer given.

5. I understand that the there are certain risks and discomforts that might arise from this research. I understand that if during the interview I feel discomfort at answering any questions I will can stop the interview that point with no repercussions.

6. I understand that by participating in this research other organizations that are either planning for or who are in the midst of a founder succession may benefit from the information gathered during this research. I understand that having already gone through a founder succession my participation my help others to successfully complete the succession process.

7. I understand that my recorded interview will be transcribed by a professional transcription service and that my information will be held in confidence. I also understand that I may be quoted at times but that my specific identify will not be disclosed in the quote. Once transcribed, the identifying information about my firm specific will be excluded from the data used in the research.

8. I understand that there will be no compensation for my participation.

9. I understand that in the EVENT OF PHYSICAL INJURY resulting from the research procedures in which I am to participate, no form of compensation is available. Medical treatment may be provided at my own expense or at the expense of my health care insurer which may or may not provide coverage. If I have questions, I should contact my insurer.

10. I understand that if I have questions that are pertinent to the research, my rights during the course of the research, or in the event that I suffer a research-related injury I may contact: ____

11. I understand that I will receive a copy of the consent form.

12. I understand that PARTICIPATION is voluntary; refusal to participate will involve no penalty or loss of benefits to which I am otherwise entitled. I understand that I may discontinue participation at any time without penalty or loss of benefits to which I am otherwise entitled.

_____________________ __________
Interviewee Date

I have explained and defined in detail the research procedure in which the subject has consented to participate.

_____________________ __________
Principal Investigator Date