



Investigating Appropriate Solutions for Transferring Family Business to Next Generations

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Abstract

In today's growing world, family businesses have a great importance in economic growth and development, and creating employment. In a general definition, family business can be considered as an organization in which the main decisions and operational plans, especially management transmission and replacements, are directed and influenced by the members of one or a number of families. Despite the fact that the results of different studies show the high importance of family business in proceeding economic goals of countries, including Iran, unfortunately the success rate of such businesses is generally low. Hence, this study aims at investigating effective factors in a successful transmission of family business to next generations, considering the existing background and records. To this end, five factors were identified which are namely: harmonious activities of the present members of the family and the next generation, expert advisors, holding family meetings, preparation and choice of successor. For the purpose of investigating the above factors, family businesses located in ten industrial cities in the province of Alborz including 105 industrial units were considered as the statistical population. To access all the members, total count method was applied and data was gathered from the owners of these businesses by the use of the designed questionnaire. To check the validity of the questionnaire, content analysis method was applied and Cronbach's alpha was applied for checking the reliability of the questionnaire. The results indicated an acceptable validity and reliability for the questionnaire. To test the study hypotheses and checking if there is any relationship between the variables, Pearson Correlation test and Multiple Regressions were applied. The obtained results showed that there is a significant and positive relationship between the successful transmissions of the family business with all the factors under investigation, except the use of expert advisors.

Keywords: Family business, coordinated activities, expert advisors, family meetings, successor preparation, successor choice, regression analysis.

Introduction

Considering the increasing complexity and competition in today's world, entrepreneurship is considered as the stimulus engine of economic growth, since it can result in the economic growth and development of countries, enhancing efficiency, creating employment and social welfare¹. Small service and production firms are among appropriate bases for enacting entrepreneurial ideas, and the reason is the high importance of family firms and businesses in the economic growth and development, along with employment and eliminating unemployment². In developed countries, considering development and expansion or antiquity and history, family businesses are pioneers and it can be claimed that in general, such businesses constitute the most successful form of business. These businesses are one of the most important factors in creating wealth and employing work force in all countries worldwide. Hence, public centre politicians in every country pay special attention to the improvement, success, and increasing longevity of such businesses and perform accurate

and targeted planning in this field. Still, statistics show that less than one third of all family businesses worldwide are transferred to the second generation of the family in a successful manner. From every 10 family bases, 7 bases are demolished in the process of transmission from the founders to their children, and still only one is transferred to the third generation¹. When family businesses are turned over or demolished, many sources including financial sources are wasted. The business itself experiences a loss, the local economy experiences a loss, and in general the total society incurs a loss. In addition to the loss that is incurred to the society by the sale or dissolution of family businesses, the family itself incurs a loss as well. Hence, the fundamental aspect of this issue is the importance of maintenance and transmission of family business to the next generations which in one hand affects the economic development of the society, and on the other hand strengthens family relationships and causes the transmission of family values from one generation to the next generation. Therefore, the main goal of this study is recognizing effective factors in a successful transmission of management and ownership of

family businesses to next generations.

Literature Review: Family Business: A family business is a company in which more than 50 percent of the company shares are owned by one family, members of one family undertake the main control of the company, or the majority of senior managers are the members of one family³. Handler⁴ defines family business as an organization in which the main decisions and operational plans, especially transmission and replacement of leadership is influenced by the members of one or a number of families. Lyman⁵ considers family business as a business, the ownership of which completely belongs to the family, at least one of the owners is engaged in that business, another member of the same family is engaged in that business, or even if he is not formally employed in that business, supports the business regularly from outside. To this end, family business is composed of two footstones of "business" and "family". Hence, it can promote a synergy between the business and the family. In other words, family businesses are composed of three aspects of family, management, and ownership. A proper management in each of these aspects has a direct effect on the other aspects; hence a new concept is formed for family business management.

Many studies have been carried out considering family business and the results indicate that family businesses not only teach good commercial skills, but also create stability in the family. Family members who cooperate in the family business and follow up similar goals, even if they do not have similar values and only accompany each other and come to a shared idea about what is important for the family business and spent more time together, will have stronger links and relationships and experience more commonalities with each other, compared with other families. Still, in family business, due to the interaction of the two domains of business and family, we always face complicated issues like the leadership of the business, family conflicts, and extreme disputes in the next generations which harden the establishment and development of family business. Things like keeping up with the joneses among siblings, discriminating between family or non-family managers, and inappropriate choice of positions for the family members are factors which usually obstruct a continues success and survival⁶. Matthew et al.⁷ investigated 940 active family firms in America to identify effective factors in the success of family business and concluded that factors as business owners' tendency for expanding the business, type and structure of the investment, amount of strategic planning, education level of members' engaged in the business, and rate of family members' participation in the investment have considerable effects on the success and development of the family business. In contrast to these factors, variables like family relations between members, family turnovers, owners' gender, and shared ownership do not have a significant relation with the success of family business. The result of a study by Tan and Fock⁸ showed that identifying an entrepreneurial leader can be the key to success in the succession of a family firm. Shaker Zahra⁹ carried out a study about the entrepreneurial risk taking of family firms. In this

study data was gathered about undertaking entrepreneurial risk among 209 American companies using agency theory, and concluded that: family ownership and engagement, enhances entrepreneurship and family business managers should investigate on the skills and talents of family members to enhance entrepreneurship and risking in the new sections of the market. The results of the study by Davis and Harveston showed that the family business's turning in to international businesses is greatly related to the founder and owners' specifications (age and education) and data technology sources. Not much research has been done on the effective factors on family business in Iran. Based on the study by Seyed Amiri¹⁰ entitled "investigating and determining the effective factors on the growth of family businesses in Tehran province" the main effective factors on the success of family businesses are: managers' creativity and risk taking ability, acquaintance with managing skills, family's tendency to transfer the business to the next generation, having a landscape and a long-term planning, and an appropriate context (legal, political, cultural, social, economical, and technical). These factors can be divided into three sections of individual characteristics of the owners and managers, environmental factors, and family factors. In another comparative study performed on the industry of petroleum and textile industry, the below factors were introduced as effective factors on establishing a family business: family relations, family conflicts, size of the family, family sources, family goals and a shared family vision. The present study suggests five factors of; coordinated activities of current family members and members of the next generation, expert advisors, holding family meetings, choice of successor, and preparation of the successor as effective factors on the successful transmission of the family business. The reasons of selecting each of these factors are discussed in details below.

Transmission of family business: Family and business are two changeable, dynamic sets which have some overlaps with each other. Managing family businesses is more difficult and challenging than managing other types of businesses due to its dynamism. Hence, in managing and planning for family businesses, more attention should be paid to the importance of dynamism of families. There are always changes in families and businesses and these changes cause some problems in the family businesses. These problems should be managed so that the probability of the business' success and the family's sustainability is enhanced. The fundamental precondition for transmission of the family business to the next generation is a set of factors which prevent dissolution and disintegration of family business, and this way, while playing an important role in the persistence and survival of the business, facilitates the transmission of the family business to the next generation. Some of the main factors are discussed below:

Holding Family Meetings: One of the important factors for creating a process, through which family business issues can be discussed, is holding family meetings in defined intervals¹¹. Holding family meetings is considered a good method for

gathering the family members together for educational goals, discussions, consultations, and preventive management of family and business affairs. The more a family business grows, the more its shareholders will scatter and when the family members get apart from each other, these family meetings make them all gather together in specific times because of business and family matters¹².

Family, meetings is a place for training family values, customs, and basic business skills to the younger members of the family and their spouses¹³. To this end, the most important objective of holding regular family meetings is creating a structure which encourages the family to take part in planning, problem solving, and decision makings. In all family businesses, the members of the family face some challenges including expression and meeting different needs and expectations of each of the members. When the number of family members increases, family meetings are considered an important way for decision making and reaching agreements about family business affairs¹⁴.

Coordinated activities of present and next generation members of the family: Only families can have common business, features, commerce, and history that can proceed their business through interactions combined with collaborative participation along with preserving family customs and regulations, and develop old behavioral or communicative patterns of the family, which are linked to family heritage, especially when the family business is in the process of regeneration.

An increasing number of business owners acknowledge the strong relation between business and family and try to combine these two together in the best way possible. To many people, this means reaching a better consideration of family functionality¹⁵. A group learning of family motives can lead to a new collaboration from which both business and family will benefit. Self-teaching among family members can strengthen consultation, receptivity, and delicateness. This can also help to change the behaviors which usually root in the past unconscious patterns of the family. Principle of family system theory is a set of beliefs which states that a family is an emotional meaningful unit. These beliefs can be helpful in comprehending family functionality¹⁶. All families, regardless of how consistent they are with each other, face some problems. Structural changes like deaths, successions, business crises, downturns, divorces and the like are part of life which family members should be equipped with good strategies for predicting them and adapting themselves to them¹². Hence, a strong and interconnected family injects many workforces to the business. Family businesses usually have a sense of shared identity. They have common interests including behavioral modifications and especial behavioral styles. Family members are aware of each other's strengths and weaknesses and have good opportunities for supporting each other¹⁷.

Presence of Expert Advisors: Advisor or groups of advisors

are one of the most important pillars of success which can facilitate the transmission of the family business into the next generations. Leadership of family business is a complex activity and family business owners need expertise support in all periods of time. If good advisors are selected, they can help in making the best use of opportunities, predict the transmission of the business, solve the problems, and resolve the conflicts. Family business advisors also can restrain the owners of business from reworks and vain activities. Hence, it can be stated that the success and permanence of family businesses may depend on an expert who is selected as the advisor for financial, tax, family relations, commercial strategy, heredity, substitutions, and other affairs¹⁸.

Choice of successor: Most family businesses will end with the death of its owner and only a few numbers of them will continue its operation with a leadership succession. Succession includes the transmission of leadership from one generation to the next, so that it is ensured that the ownership of the business will remain in the family. Family businesses should experience succession for more permanence and continuity. On the other hand, succession is a central issue which should be considered for the continuation and transmission of the business to the next generation. No doubt, succession is a complex process which takes place in long term and is composed of some key stages like the readiness of the potential successors for playing the leadership role, integrating the potential successors with the position to be bestowed to them so that they can get acquainted with that position and get a proper understanding of it, and granting the responsibility of controlling the business to the potential successors¹⁹. Replacing the current director is one of the general challenges in family businesses. Human nature makes people to follow up measures which guarantee their permanency and this is why most leaders prevent succession and this will ruin the business. Hence, if family businesses seek continuity, they should have a coherent succession planning⁶. On the other hand, despite the benefits of succession planning, many families prefer to live with a state of ambiguity in this regard. Who is really eager to think about dying and disablement, or discriminating between children and sacrificing the present power and authority to an unknown future? Still, if an unexpected death or disability of the manager happens, it will be manifested that he/she has unintentionally created a crisis and his/her heirs and offspring are not guided in this way or are not prepared for managing the business²⁰.

Preparing the successor: Preparing the new generation for undertaking the leadership of family business is one of the most difficult affairs which the business owner faces all during his/her life. Still, this is essential for the continuance and revitalization of the business²¹. Nowadays, the rate of change in businesses is greatly increasing in a way that a strategy that is efficient for the business at present can rarely be useful for the next generations. The necessity of change and transformation in most industries has turned the competitors into huge giants with multiple financial, marketing, and distribution arms. The

longevity of products is decreasing, industrial zones are vanishing, and the successors not only should prepare themselves for organizing and managing the business, but also should equip themselves for a strategic restructuring and strengthening, not even once but several times while in charge of the business. The successor should be prepared for a position which still does not exist and in an era which nobody can predict it. Moreover, there are endless challenges and conflicts at the time of replacing the present successful and dominant manager, a manager which is now worshipped like an idol by the family members and others. All these factors make this replacement seem a frightening occurrence. A serious planning for the preparation of the successor creates the best chance for flourishing talents of the new generation manager of the family business, and can create a deep and expanded management for the future of the company. This opportunity enhances the chance of sustainability of the young and talented members of the family (Dianne, 1998). Generally, making up the new generation of managers includes seven stages¹⁹:

Behavioral preparation: Main behaviors of any individual, regarding family business, are formed from childhood until the age of 25. Usually, individuals have a part time job in the family business and have some occasional short time business trips and accompany the business owner or the advisor. Ideally, such a person should have experienced 3 to 5 years of working outside their own company.

Entrance: The entrance of family members to the business may turn into a challenging matter. The pioneers should expand some of the rules and regulations due to the entrance of family members to the business. Usually, explanation or serious discussions regarding succession should not be forwarded before the young member of the family has entered the business. Such discussions should be postponed until when the successor is in an age range between 20 to 30, and has undertaken a sensitive position in the company. In this case, he/she is ready to be trained, directed, and expands his/her relations with other colleagues.

Expanding insights about business: This stage usually takes place during the ages of 25 to 35, and this is when the successor should have the best experience about his/her job. During these years, he/she should acquire or complete the needed skills and capabilities. Besides work-related activities, this person should receive some training about the history of the business, its culture, strategy, and philosophy. In the case the candidate for succession is not a proper choice for this position, it will be revealed in this period.

Expanding managing activities: During the ages of 30 to 40, the planning of succession will go beyond occupational limits and it is the time when he/she should feel that he is responsible for the whole business. In this stage, the successor expands needed skills for forming a group and joint decision makings. In the case there are more than one candidate for the succession,

this is the time when the manager naturally shows up and manifests himself.

Selection: In the case there are a number of candidates for the succession; selection should be performed much sooner in this stage. Selection of the succession can be performed through different methods. These different methods can be an early and forced choice, choice through the votes of managing board members, or a general agreement between the family, managing board or executive managers.

Transmission: This stage is when the authorities and responsibilities are transferred to the successor. At this time the successor might engage him with the company's strategy training and select his own managing team.

Next round: succession in a family business is a cyclical process which should not be neglected for a long period. A while after the transmission of the managers, the new managers should start preparing the next generation of the managers.

Hypothesis and conceptual framework: Theoretical framework is a conceptual pattern based on theoretical relations between important elements of the issue under investigation. This theoretical framework flows logically in the realm of research by investigating the research background. Based on the suggested definitions, and through the explanation of past research, the theoretical framework (figure 1) is studied for the aim of identifying effective factors on a successful transmission of the business to the next generation.

The Conceptual framework of the research which has been shown in the above figure is based on hypotheses that are described below:

Family business owner's planning about coordinated activities of the present generation and the next generation of the family has a significant relation with the successful transmission of the business to the next generations. Use of expert advisors has a significant relation with the successful transmission of the business to the next generations. Family business owner's planning about holding family meetings has a significant relation with the successful transmission of the business to the next generations. Family business owner's planning about preparation of the successor for managing the business has a significant relation with the successful transmission of the business to the next generations. Family business owner's planning about selecting the successor has a significant relation with the successful transmission of the business to the next generations.

Methodology

Research method: Due to the fact that this study seeks to identify effective factors of a successful transmission of family businesses to the next generations and presenting some solutions

for improving the transmission conditions, and the results of this study can be immediately applied in the target community, hence this study is an applied study considering its objective. On the other hand, in this study effects of each factor are investigated and considering data collection this study is a descriptive survey research.

Statistical population and sample: This study investigated all family businesses located in the industrial city of Alborz province as the statistical population which included 105 industrial units, and for accessing all members of the statistical population, census sampling method was applied and all members of the statistical community were investigated.

Data gathering tools: This study used a questionnaire with 30 questions containing effective factors on each hypothesis in order to investigate and analyze the factors discussed in details in the previous sections.

Validity and Reliability: Face validity was applied to check the validity of the questionnaire by asking the point of view of experts and professors of the related domain, also, the correlation between all the questions of the questionnaire was calculated and the result was equal to 0.634. Moreover, to check the reliability of the questionnaire, Cronbach's alpha was calculated separately for questions related to each of the factors and the results indicated an acceptable internal consistency of the questionnaire. The results are depicted in table 1.

Table-1

Cronbach's alpha coefficient for the questions of effective factors on the successful transmission of the family business questionnaire

Variables	Questions	Cronbach's alpha coefficient
Coordinated activities of current and next generation family members	1 to 5	0.694
Expert advisors	6 to 10	0.868
Holding family meetings	11 to 15	0.702
Successor preparation	16 to 20	0.760
Successor selection	21 to 25	0.660
Successful transmission of the business	26 to 30	0.817
All variables		0.830

Results and Discussion

Investigating the normality of research variables: In order to check the normality of research variables, Kolmogorov-Smirnov test was applied. H0: the related variable is normal. H1: the related variable is not normal.

Wherever the significant number of the test is higher than the level of significance (0.05) the 0 hypothesis is accepted. Based on the results of this test, all research variables had a normal distribution. Hence, normal tests are used for confirming or rejecting the hypotheses.

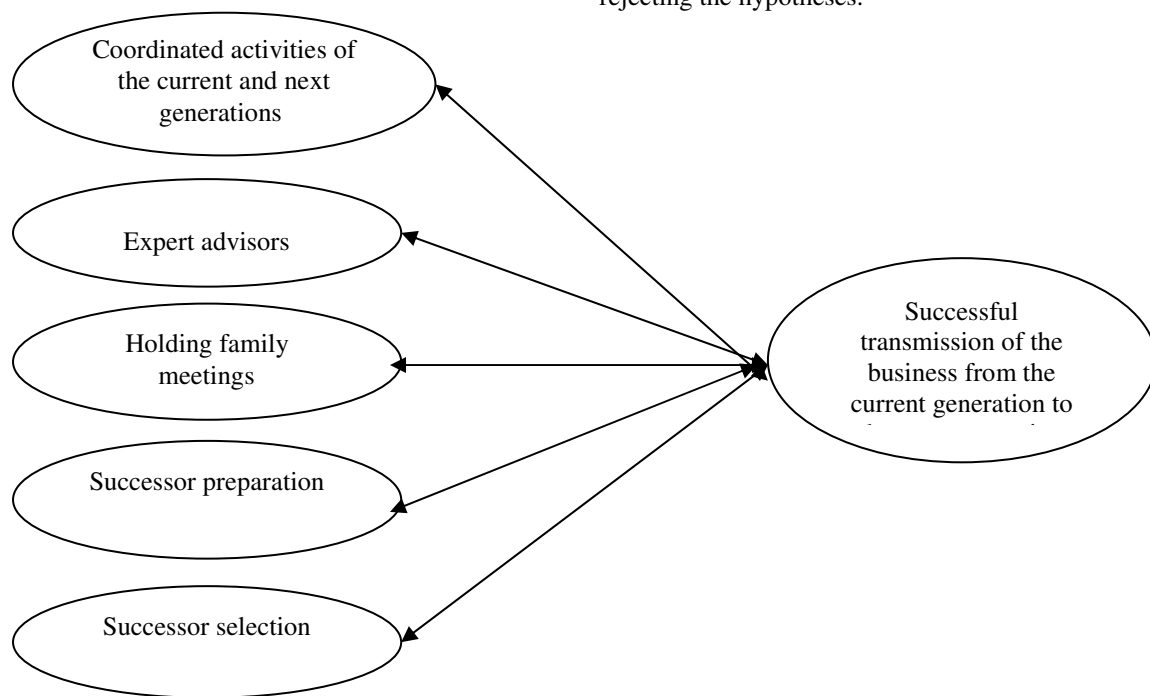


Figure-1
Conceptual Framework

Table-2
Investigating the normality of the research variables

Variable	Business successful transmission	Coordinated activities	Expert advisors	Family meetings	Successor selection	Successor preparation
Number	105	105	105	105	105	105
Z Kolmogorov-Smirnov	0.527	0.608	0.976	0.565	0.786	0.633
Significance coefficient (sig)	0.844	0.968	0.385	0.882	0.784	0.929

Table-3
Pearson Correlation test results between each of the research variables and the successful transmission of the business

Variables	Correlation coefficient	Significance level
Coordinated activities of current and next generation family members	0.66**	0.001
Using expert advisors	0.035	0.719
Holding family meetings	0.332**	0.001
Successor preparation	0.846**	0.001
Successor selection	0.699**	0.001

$p < 0.05^*$, $p < 0.001^{**}$, $n = 105$

Pearson Correlation test: To investigate the relation between each of the research variables with the transmission of the business to the next generations from the view point of the current owners, the Pearson Correlation test was used and the results are depicted in table-3.

The above table indicates that the significance level obtained from the Pearson Correlation test between the coordinated activities of the current and next generation members of the family (0.001), holding family meetings (0.001), successor preparation (0.001), and successor selection (0.001); and the variable of successful transmission of the business to the next generation is lower than the acceptable significant lever (0.05), hence they are all acceptable. This is while, the obtained significance level for the variable of using expert advisors (0.719) is higher than the acceptable significance level and it is rejected. Hence, the first, third, fourth, and fifth research hypotheses are accepted and the second one is rejected. To this end, there is a significant relation between coordinated activities of current and next generation family members (0.66), holding family meetings (0.332), successor preparation (0.846), and

successor selection (0.699); and the transmission of the business to the next generation, but no significant relation was observed between using expert advisors and transmission of the business to the next generation.

Regression testing: This study used Multiple Regression for identifying the simultaneous contribution of the 5 research variables. The results obtained from the stepwise multiple regression analysis is presented in table 4.

Considering the results of table-4, the variables of coordinated activities, succession preparation, expert adviser, selection of successors, and holding meetings all together predict 79 percent of the variance of business transmission, and considering the fact that the calculated F in the regression model is significant in a level below 0.001, the linear regression model is meaningful and it can be concluded that the variables of coordinated activities, successor preparation, successor selection, and holding family meetings have a linear meaningful relation in the prediction of the family business transmission.

The research multiple regression equation is calculated using the results of table-5.

Table-5 indicates that the t significance test for regression coefficient of predicting variables of coordinated activities, succession preparation, succession selection, and holding family meetings are significant in a level below 0.05. Considering the standard coefficients of the calculated regressions, this research's multiple regression equation is as below.

Transmission of the business to the next generation – 0.152 (coordinated activities of the current and next generation x 1) + 0.113 (family meetings x 2) + 0.655 (succession preparation x 3) + 0.135 (successor selection x 4).

Table-4
Significant results of regression model for predicting the transmission of the business

Change sources	Sum of squares	Degree of freedom	R	R ²	F	Significance level
Regression	1227.59	5	0.84	0.79	74.32	0.001
Remainder	327.04	99				
Total	155.63	104				

Table-5
The summary of regression coefficient table for predicting a successful transmission of the family business

Variable	B	Standard error	Beta	t-statistic	Significance level
constant	-12.456	1.735		-7.179	0.001
Coordinated activities	0.219	0.088	0.152	4.484	0.015
Expert advice	0.081	0.051	0.075	1.585	0.116
Family meetings	0.141	0.066	0.113	2.131	0.036
Successor preparation	0.904	0.095	0.655	9.469	0.001
Successor selection	0.203	0.102	0.135	1.991	0.049

Hypotheses analysis: First hypotheses: Family business owner's planning about coordinated activities of the current and next generation has a significant relation with the successful transmission of their business to the next generations. Considering the obtained level of significance from the Pearson Correlation test (0.001) and the results of the regression test with a significance level of 0.015 and B coefficient of (0.219), this hypothesis is confirmed.

Second hypotheses: Getting use of expert advisors has a significant relation with the successful transmission of the family business to the next generations. Considering the obtained level of significance from the Pearson Correlation test (0.719) and the results of the regression test with a significance level of 0.116 which is not within the acceptable range (0.05), this hypothesis is rejected.

Third hypotheses: Family business owner's planning about holding family meetings has a significant relation with the successful transmission of the family business to the next generations. Considering the obtained level of significance from the Pearson Correlation test (0.001) and the results of the regression test with a significance level of 0.036 and B coefficient of (0.141), this hypothesis is confirmed.

Fourth hypotheses: Family business owner's planning about succession preparation for managing the business has a significant relation with the successful transmission of the family business to the next generations. Considering the obtained level of significance from the Pearson Correlation test (0.001) and the results of the regression test with a significance level of 0.001 and B coefficient of (0.904), this hypothesis is confirmed.

Fifth hypotheses: Family business owner's planning about successor selection has a significant relation with the successful transmission of the family business to the next generations. Considering the obtained level of significance from the Pearson Correlation test (0.001) and the results of the regression test with a significance level of 0.203 and B coefficient of (0.049), this hypothesis is confirmed.

The Final Research Model: Based on the obtained results regarding the hypotheses, the final model of this research is presented in figure-2.

Conclusion

In competitive environment, companies are forced to compete with national and international factors and developing their activities through new investment to survive²². Family business owners always like to remain the business they have set up in the family, and for this reason they seek their family members' presence in the process of business so that through their participation in the business, family members get engaged in the business process. On the other hand, based on the obtained results, performance of coordinated activities between the present generation and new generations increases the motivation for a greater participation of the new generation in the family business, eliminates the family conflicts regarding family business, and facilitates the transmission of beneficial experiences in the field of business from the entrepreneurs or founders of the previous generations to the next generation, and transmission of new ideas and perspectives considering family business from the new generation to the previous generations.

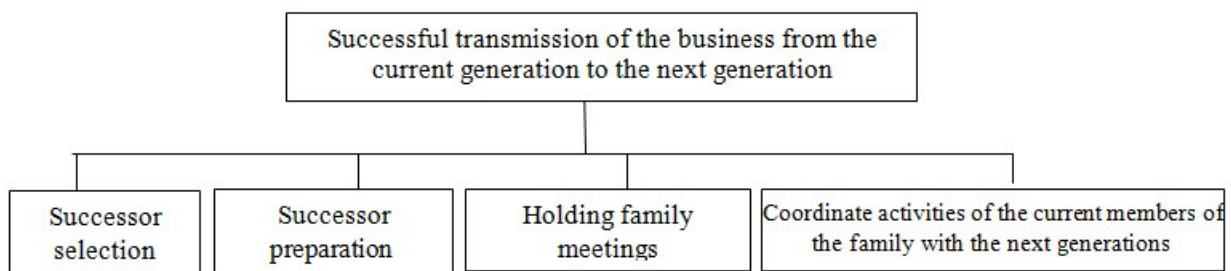


Figure-2
Final research model

The results of this study indicated that using expert advisors does not have a significant relation with the transmission of the family business to the next generation. Use of expert advisors in family businesses in many developed countries is among very important factors in the transfer process of the business to the next generations and accelerates the development and implementation of succession programs including; the preparation of the potential successors for accepting the management of the family business, a proper selection of the successor, and helping in the compilation of performance evaluation plans of the successors' performance. The result of this study can be an indicator of the facts that in countries like Iran, expert advisors do not have a successful performance in regards with the family businesses, there are not expert advisors in this field, or the number of them is very low, or even the fact that family business owners do not rely on expert advisors in the field of family businesses. Considering the holding of family meetings, it should be noted that one of the most important factors in creating a process through which family business affairs can be discussed is holding family meetings in specific durations. These meetings can help provide information and create transparency about family business, and on the other hand gathers all family members together, so that they can participate in goal settings and making decisions, and learn some points while discussing about general business affairs and preserving the family customs and originality. Family meetings can be beneficial in creating a stronger family and more powerful business. These meetings help the family in planning for the future in an efficient and constructive manner. These meetings can also solve the problem of business transmission from the current leaders to their children and facilitate the young manager's reception of his/her position and turn the business into a professional one. Holding family meetings helps to solve the costly and problematic family disputes, which usually exist in such family business, at the proper time. The results of the current study also confirm this fact. Moreover, the results indicated that succession preparation is among effective factors on the transmission of the family business to the next generations. Preparation creates an opportunity for re-upbringing of children or potential successors so that they can formulate a proper understanding of business and managing it in the future. Family business owners pay special attention to successor preparation because of the fact that this factor is one of the most important factors in a successful management of the business, which finally leads to the survival and continuance of the business and generates wealth for the family and business staff.

The results of this study also indicated the importance of successor selection as an effective factor in business transmission to the next generations. The reason for the importance of this factor is the business owners' especial attention to the next manager of the business which will guarantee the survival of the business and increase the assets. Family owners should have a coherent and precise plan for selecting their successor. This plan, along with the performance

evaluation plans should be compiled by the executive managers or a group whose members are not family members, so that any intervention of family members is avoided in this vital process.

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