


# THE ROLE OF SUCCESSION PLANNING PRACTICES IN ENSURING BUSINESS CONTINUITY IN ETHIOPIAN FAMILY-OWNED BUSINESSES: IN THE CASE OF BOLE SUBCITY, ADDIS ABABA, ETHIOPIA

BY: YORDANOS SOLOMON

ID: GSD/9157/16

ADVISOR: TEWODROS WUHIB (Ass/Professor)

A THESIS SUBMITTED TO ADDIS ABABA UNIVERSITY COLLEGE OF BUSINESS AND ECONOMICS IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR MBA MASTERS PROGRAM

JUNE, 2026

ADDIS ABABA, ETHIOPIA

# Declaration

I, the undersigned, declare that this study entitled **"The Role of Succession Planning Practices in Ensuring Business Continuity in Ethiopian Family-Owned Businesses: in the case of Bole Sub City, Addis Ababa, Ethiopia"** is my work. I have undertaken the research work independently with the guidance and support of my advisor. This study has not been submitted for any degree or postgraduate program in this or any other institution and all sources of materials used for the research have been duly acknowledged.

Yordanos Solomon

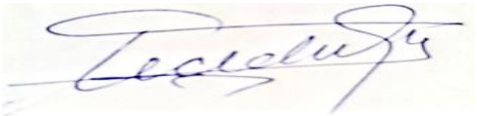
June, 2026



# Statement of Certificate

This is to certify that Yordanos Solomon has carried out his thesis work on the topic entitled **"The Role of Succession Planning Practices in Ensuring Business Continuity in Ethiopian Family-Owned Businesses: in the case of Bole Sub City, Addis Ababa, Ethiopia"** under my guidance and supervision. I here assure that her work is appropriate to be submitted for examination with my approval as a thesis.

Name of Advisor: Tewodros Wuhib (Ass/Professor)

Signature 

Date : June, 2026

**Addis Ababa University**

**College of Business and Economics**

**Department of Business Administration (MBA) Program**

## EXAMINERS' APPROVAL SHEET

We, the undersigned, members of the Board of Examiners of the final thesis by Yordanos Solomon have reviewed and assessed her thesis research "The Role of Succession Planning Practices in Ensuring Business Continuity in Ethiopian Family-Owned Businesses: in the case of Bole Sub City, Addis Ababa, Ethiopia" and evaluated the candidate. Therefore, we recommend that the student has fulfilled the requirements and hence hereby can submit the thesis to the department.

**Approved by:**

- **Advisor**

**Name:** Tewodros Wuhib (Ass/Professor) **Signature** _____ **Date:** June, 2026

- **Internal Examiner**

**Name** Dejene Tulu (P.h.D) **Signature** _____ **Date** June 23, 2026

- **External Examiner**

**Name** Asmamaw Argeta, Ph.D **Signature** _____ **Date:** 22/06/2026

## Acknowledgement

I thank the Almighty God for giving me the strength to complete this journey, and I express my deepest gratitude to my advisor, Tewodros Wuhib (Ass. Professor), for his invaluable guidance and constant support throughout this research. I am also grateful to my family for their unconditional love and endless encouragement. Finally, special thanks to Selam without your continuous push and unwavering support, this research would not have been possible.

# Table of Contents

List of Figures ..... i
List of Tables ..... ii
Acronyms ..... iii
Abstract ..... iv
CHAPTER ONE ..... 1
1. INTRODUCTION ..... 1
1.1 Background of the study ..... 1
1.2 Statement of the problem ..... 2
1.3 Research Questions ..... 3
1.3.1 Research Question ..... 4
1.3.2 Specific Research Questions ..... 4
1.4 Research Objectives ..... 4
1.4.1 General Objective ..... 4
1.4.2 Specific Objectives ..... 4
1.5 Scope of the Study ..... 4
1.6 Significance of the Study ..... 5
1.7 Limitation of the Study ..... 5
1.8 Organization of the Study ..... 6
1.9 Definition of Key Terms ..... 7
CHAPTER TWO ..... 9
2. REVIEW OF RELATED LITERATURE ..... 9
2.1 Introduction ..... 9
2.2 Succession Planning De-Classified ..... 10
2.3 Theoretical Review ..... 11
2.3.1 System Theory ..... 11
2.3.2 Principal-Agent Theory ..... 13
2.3.3 Stewardship Theory ..... 15
2.3.4 Resource-Based Theory of a Firm ..... 17

2.4 Succession Planning Practices and Business Continuity ..... 18
2.4.1. Formal Succession Planning ..... 18
2.4.2 Successor Development ..... 19
2.4.3 Family Governance Structures ..... 19
2.4.4 Stakeholder Communication ..... 19
2.4.5 Successor Readiness ..... 19
2.4.6 Business Continuity ..... 20
2.4.7 Leadership Continuity ..... 20
2.4.8 Operational Continuity ..... 20
2.4.9 Organizational Sustainability ..... 20
2.5 Factors Affecting the Adoption of Succession Planning ..... 20
2.6 Factors Affecting Survival of Family Owned Businesses ..... 21
2.7 Empirical Review ..... 22
2.8 The Rationale behind Succession Planning In the Organization ..... 25
2.9 The Importance of Family Owned Businesses ..... 27
2.10 Family Member Influence and Succession Planning ..... 28
2.11 Challenges Facing Succession Planning ..... 29
2.12 Strategies Applied In Family Business Succession Planning ..... 30
2.13 Succession Planning Benefits ..... 32
2.14 Conceptual Framework ..... 33
2.14.1 Variables of the Study ..... 34
2.14.2 Hypotheses ..... 36
CHAPTER THREE ..... 37
3. RESEARCH METHODOLOGY ..... 37
3.1 Introduction ..... 37
3.2 Research Design ..... 37
3.3 Target Population ..... 37
3.4 Sample Size ..... 38
3.5 Sampling Unit ..... 39
3.6 Sampling Procedure ..... 39
3.7 Data Sources ..... 40
3.7.1 Primary Data Sources ..... 40

3.7.2 Secondary Data Sources ..... 40
3.8 Data Collection Instrument ..... 40
3.8.1 Pilot Testing ..... 40
3.9 Reliability and Validity ..... 40
3.9.1 Assessment of Measurement Model ..... 40
3.9.2 Validity ..... 41
3.10 Data Analysis ..... 41
3.10.1 Descriptive Analysis ..... 42
3.10.2 Assessment of Measurement Model ..... 42
3.10.3 Assessment of Structural Model ..... 42
3.10.4 Path Model Specification ..... 42
3.10.5 Hypothesis Testing Decision Rule ..... 43
3.11. Ethical Consideration ..... 43
CHAPTER FOUR ..... 44
4. DATA ANALYSIS AND DISCUSSION ..... 44
4.1. Introduction ..... 44
4.2 Descriptive Statistics of Respondents and Businesses ..... 44
4.3 Assessment of the Measurement Model ..... 46
4.3.1 Indicator Reliability (Outer Loadings) ..... 46
4.3.2 Internal Consistency Reliability and Convergent Validity ..... 48
4.3.3 Discriminant Validity ..... 49
4.4 Assessment of the Structural Model ..... 50
4.4.1 Collinearity Assessment ..... 50
4.4.2 Coefficient of Determination ($R^2$ Values) ..... 50
4.4.3 Effect Sizes ($f^2$) ..... 51
4.5 Hypothesis Testing (Path Coefficients) ..... 51
CHAPTER FIVE ..... 54
5. SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION ..... 54
5.1 Introduction ..... 54
5.2 Summary of Key Findings ..... 54
5.3 Conclusions ..... 55
5.4 Recommendations ..... 56

5.5 Directions for Future Research ..... 56
REFERENCE ..... 58
APPENDIX: ..... 64

# List of Figures

Figure 2.1: Three-Circle Model of the Family Business System ..... 12
Figure 2.2: Principal-Agent Theory model ..... 15
Figure 2.3: Stewardship Theory model ..... 16
Figure 2.4 Resource-Based Theory model ..... 18
Figure 2.5: Conceptual Framework based on System Theory ..... 35
Figure 4.1 Structural models with Path Coefficients and $R^2$ Values ..... 53

# List of Tables

Table 3.1 Path Model Specification ..... 42
Table 3.2 Hypothesis Testing Decision Rules ..... 43
Table 4.1 Demographic Characteristics of Respondents (N=86) ..... 44
Table 4.2: Indicator Outer Loadings ..... 46
Table 4.3: Internal Consistency Reliability and Convergent Validity ..... 48
Table 4.4: Heterotrait-Monotrait (HTMT) Ratios ..... 49
Table 4.5: Coefficient of Determination ($R^2$ Values) ..... 50
Table 4.6 Effect Size ($f^2$) Summary ..... 51
Table 4.7 Results of Direct Hypothesis Testing ..... 52

## Acronyms

AVE Average Variance Extracted

CR Composite Reliability

FGS Family Governance Structures

FOB Family-Owned Business

FSP Formal Succession Planning

GDP Gross Domestic Product

HTMT Heterotrait-Monotrait Ratio

LC Leadership Continuity

MBA Master of Business Administration

OC Operational Continuity

OS Organizational Sustainability

PLS-SEM Partial Least Squares Structural Equation Modeling

SC Stakeholder Communication

SD Successor Development

SEP Succession and Exit Position

SR Successor Readiness

VIF Variance Inflation Factor

## Abstract

Given the fact that more than 70% of privately held family businesses in Ethiopia fail within one year after the founding member dies, this research seeks to investigate the role of succession planning practices in ensuring business continuity in Bole Sub-City, Addis Ababa. An explanatory mixed-method approach was used in the study, whereby the data collected from 86 family businesses (91.5% response rate) was analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The results point out a looming succession crisis since 71% of the enterprises are in their first generations, 24% in the second generation, and 5% in the third generation. The results from the measurement model show great reliability in which the loading factors are above 0.80 while the Cronbach's alpha values range between 0.902 and 0.981. The structural model showed great explanatory power for Leadership Continuity ($R^2 = 0.824$), Operational Continuity ($R^2 = 0.657$), and Organizational Sustainability ($R^2 = 0.809$). From hypothesis testing, it was found that Formal Succession Planning, Successor Development, and Stakeholder Communication significantly contribute to business continuity while Family Governance Structures were negatively related to Organizational Sustainability. In summary, this study reveals that there is an urgent need for action regarding the succession gap. The authors suggest that family business owners formulate plans with defined time frames, develop their successors, and involve successors in stakeholder relations. At the same time, governments must organize nation-wide campaigns and offer tax advantages for succession planning, and chambers of commerce need to provide mentorship and training services. Future research on the topic needs to consider wider geographical coverage of the country and use longitudinal methodology.



**Keywords:** Succession planning, family business, business continuity, organizational sustainability, Ethiopia, PLS-SEM, successor development, family governance

# CHAPTER ONE

## 1. INTRODUCTION

### 1.1 Background of the study

Family businesses (FBs) form a major part of the world economy in terms of being main sources of employment generation and industry growth. The definition of family businesses involves companies where there is considerable influence of families over their management, strategic decision-making, and value orientation, thereby ensuring that the corporate objectives are in sync with the interest of the families (Jess H. Chua, 1999). Family businesses are considered the oldest form of commercial organization and the main contributors to all societies' economic and social well-being (Tomasz Ingram, 2018).

Succession planning, the process of finding and grooming candidates to fill crucial leadership positions as a result of retirement, promotion, or departure from the company, is one of the most important operational challenges of such companies (Basco, 2013) In case of family firms, succession entails the transfer of managerial and ownership responsibilities to succeeding generations or, on the other hand, liquidation of the firm. Although workforce planning is a general phenomenon observed in all industries, the sustainability of FOBs is particularly linked to succession.

Though there is the economic significance of the FOBs, data concerning their lifespans seems to portray a pattern of erosion. Studies have found that 70% of all the family-owned businesses across the world are doomed for extinction within one generation, 86% perish before reaching the third generation, and 97% of all the organizations cease to exist beyond the third generation (Magaci, 2020). There are several reasons why these companies are shutting down, such as changing economic environments, financial challenges, and poor management. Nonetheless, literature shows that lack of proper succession plans is the major cause of company termination (Ogundele, 2012).

The concept of business continuity refers to the ability of a company to sustain its operations and deliver services amidst disruptions; however, in recent times, business continuity is being put to test as a result of changing leadership (Long, 2024). Without an effective plan in place, the transition in leadership creates a source of weakness.

The formal private sector in Ethiopia mainly includes the existence of FOBs ranging from small-scale businesses to larger enterprises in areas such as manufacturing, import-export activities, and real estate firms. Even though they abound, there is no clear strategy for their succession. According to the recent statistics provided by (HST Consulting plc, 2024), 81% of the family businesses in Ethiopia do not have any form of formal succession plan for CEO position, while only 13% have succeeded in formally choosing a successor. These pose risks for leadership vacuum, family disputes, and decline of the business when the founder is nearing his retirement age or unexpectedly dies. Although these problems have been highlighted, there is scanty evidence on the process and practice of succession planning among Ethiopian family owned firms.

## 1.2 Statement of the problem

All leaders in business organizations experience a lifecycle in businesses just like FOB leaders. It is incumbent upon the family business leaders to work hard to pave the way towards the next generation of business owners (Giarmarco, 2012). Nonetheless, notwithstanding its importance, succession planning seems to be one of the most overlooked strategies in managing a family business. The rate at which global family businesses fail from generation to generation continues to remain very high. The current studies reveal that without any intervention, almost 70 percent of family businesses do not pass to the next generation while 97 percent do not make it past the third generation (Magaci, 2020; James J. Chrisman, 2017). This discontinuation in the business is usually associated with the lack of proper succession procedures which are vital in anticipating and facilitating the process of transferring business ownership and leadership.

In the African scenario, despite family-owned enterprises being the backbone of the nation's economy, very few are able to transfer power to the coming generations (Nsehe, 2014; Akinbade, 2023). Ethiopia is not an exception to this case. There exists a serious lack of preparedness in the sector. As per the findings of (HST Consulting plc, 2024) from their latest survey, merely 31% of the family-owned companies in Ethiopia have a concrete and well-

defined succession plan for their CEOs. More importantly, just 13% have actually identified a successor through planned processes, while the rest 19% have done it informally. Such an informal approach leaves companies vulnerable to serious threats, like leadership vacuum and internal conflicts, which lead to the downfall of companies (Tadesse, 2023).

A significant challenge facing succession in such companies is "primogeniture" prejudice, which entails selecting the first son or any other relative irrespective of their competency. The owners do not consider the possibility of recruiting professional managers who are unrelated, even where such recruitment is necessary. This reliance on bloodline instead of merit results in what is referred to as the "family trap" in which the successor does not have the necessary skills, which makes running the organization cumbersome and lacks direction (Miller, 2021). In addition, there is the conspicuous lack of mentorship and training. Succession is a lengthy process that begins early; unfortunately, many of the entrepreneurs in Ethiopia have the "founder's syndrome," meaning that they hold power until death or incapacitation (Kefalew, 2024).

The consequences of poor succession planning extend beyond the firm to the broader economy. The collapse of these businesses due to nepotism, ineffective leadership, and communication gaps negatively impacts profitability, increases employee turnover, and reduces job creation for youths (Abebe, 2025). While human resource planning identifies the need for orderly replacement, the inability of owners to implement these plans leads to instability and eventual closure. Given that existing literature largely focuses on Western contexts, there is a scarcity of empirical research addressing how specific succession practices such as formal planning, successor development and stakeholder communication directly influence business continuity in the unique socio-cultural context of Ethiopia. Therefore, this study aims to investigate the role of succession planning practices in ensuring business continuity in Ethiopian family-owned firms, offering evidence-based recommendations to enhance their sustainability.

## 1.3 Research Questions

The study shall be based on the following research questions that would help in determining the role of succession planning practices on business continuity in Ethiopian family-owned businesses.

### 1.3.1 Research Question

- What is the role of succession planning practices in ensuring business continuity in Ethiopian family-owned businesses?

### 1.3.2 Specific Research Questions

1. What succession planning practices exist in Ethiopian family-owned businesses?
2. What factors influence the adoption of succession planning?
3. How prepared are successors to assume leadership roles?
4. What is the relationship between succession planning practices and business continuity?
5. What challenges affect succession planning implementation?

## 1.4 Research Objectives

### 1.4.1 General Objective

The main objective of this research is to assess the role of succession planning practices in ensuring business continuity in Ethiopian family-owned businesses.

### 1.4.2 Specific Objectives

1. To identify existing succession planning practices.
2. To examine factors influencing succession planning adoption.
3. To evaluate the readiness of next-generation successors for leadership transfer.
4. To analyze the relationship between succession planning and business continuity.
5. To identify challenges affecting succession planning implementation

## 1.5 Scope of the Study

This research will target family firms located in Addis Ababa Bole Sub City who have operated for at least five years and have family members with ≥50% equity and influence in their business operations. The demographic frame will include family owners such as the founder(s)/owner-manager(s), top-level family executives, family successor(s), and top-level managers responsible for leadership/succession planning. Thematically, the research examines succession practices, factors influencing plan adoption, generational readiness, and the linkage between succession

planning and business continuity indicators. The study explicitly excludes government-owned enterprises, publicly listed companies, and non-family private firms.

## 1.6 Significance of the Study

The study will be of great benefit to many individuals, businesses and families in general. The following will benefit from the study;

FOBs will greatly benefit from information on how succession planning affect the family owned businesses continuity and strategies to adopt to sustain these businesses to the next generation. The family business investors will also benefit from the knowledge of the challenges that awaits family owned businesses that do not embrace succession planning for the future generation and be in a better position to make appropriate decisions.

The future researchers will also benefit from the study as they will be able to get the already compiled information concerning the role of succession planning on business continuity of family owned businesses, particularly those researchers who will be carrying out a study almost similar to this or related to succession planning in the family owned businesses.

The study will also offer evidence-based insights for Chambers of Commerce, business development agencies, legal/financial advisors, and academic institutions to design capacity-building, governance, and mentorship programs tailored to Ethiopian family enterprises.

## 1.7 Limitation of the Study

While this research provides valuable insights into the role of succession planning practices in ensuring business continuity of Ethiopian family-owned businesses, several limitations should be acknowledged:

First, the research is restricted geographically to the Bole Sub-City of Addis Ababa. The socio-cultural, economic, and legal conditions under which family businesses function may vary from region to region in Ethiopia. Therefore, there may be limitations in the applicability of the findings to family businesses operating outside that region.

Second, there is a potential problem of survivorship bias in the study, since the analysis was performed only for those companies that are still in business. The family enterprises that had

gone out of business due to bad succession planning were not included in the analysis. Thus, the impact of the bad succession practices might be underestimated.

Thirdly, the use of self-reporting through survey is bound to bring in the possibility of social desirability bias, where the family business owners may not want to reveal any sensitive information like conflicts, problems, or being unprepared, which might have an effect on the answers provided. Although methods such as anonymity and triangulation were used to avoid this bias, some bias might still exist.

Finally, the study is further limited by time and resource limitations. The scope and depth of data collecting and analysis may be limited by a lack of resources and time.

## 1.8 Organization of the Study

The organization of this study consists of five chapters with different divisions and sub-divisions.

The study's history, problem statement, research questions, research objectives, significance, limitations, scope, definitions of important words, and organization are all included in Chapter One, which serves as an introduction to the study.

Chapter two comprises reviews of theoretic and empirical literatures as well as the conceptual framework that rules this research.

Chapter three dealt with the research methodology including research design, sources of data, sampling method, sample size, data collection procedures, the study's data collection and analysis methods.

Chapter four covers data presentation, analysis, and interpretation of the results derived from the gathered data.

Chapter five provides summary and conclusion of the study and suggests possible corrective recommendations that derived from the result of the study.

## 1.9 Definition of Key Terms

**Family-Owned Business:** An enterprise where a family holds substantial influence over strategic direction, decisions, and core values, aligning business goals with the family's long-term interests (Jess H. Chua, 1999).

**Succession Planning:** The systematic process of identifying and preparing suitable employees through mentoring, training, and job rotation to replace key players within an organization as those key players leave their positions due to retirement, advancement, or attrition (Basco, 2013).

**Business Continuity:** An organization's ability to continue delivering its most important products, services, and internal functions during and after a disruption (Long, 2024). In the context of family business succession, it refers to the smooth functioning of the enterprise throughout leadership transitions.

**Formal Succession Planning:** This is an indication of the existence of a plan which involves writing down details on how long it will take before there is a transfer of leadership, setting criteria for identifying a successor in writing, and putting in place provision for an unexpected exit from the leadership position (Rothwell, 2015).

**Successor Development:** This involves the processes which aim at equipping someone who is likely to be a future leader of the family firm with knowledge, skills, competencies, and the ability to become a leader (Cabrera-Suárez, 2018).

**Family Governance Structures:** This involves processes which ensure the family maintains good relations with the business and takes collective action to address issues pertaining to successions (Jaffe, 2004).

**Stakeholder Communication:** It is the process that involves systematically and deliberately exposing the chosen successor to the main internal and external stakeholders of the organization such as customers, vendors, banks, and other relevant employees (Khurana, 2002).

**Successor Readiness:** Successor readiness is about whether or not the identified successor is equipped with the necessary skills, experiences, motivation, and social abilities to take charge of the management of the family business (Venter E. B., 2005).

**Leadership Continuity:** Leadership continuity implies a smooth transition of decision-making power from the incumbent leader to the successor leader without any misunderstanding, delay or vacuum of power (Giambatista, 2005).

**Operational Continuity:** Operational continuity means ensuring that an operational family business can continue with its normal operations, customer relations, vendor network, and knowledge base despite change in leadership (Carroll, 1984).

**Organizational Sustainability:** ustainability of the organization means ensuring the continued existence, success and prosperity of the organization even after the present generation (Magaci, 2020).

**Contingency Provisions:** Contingency provisions refer to the components of a succession plan that address unexpected leadership exits such as death, disability, or sudden departure of the incumbent leader (Rothwell, 2015).

**Family Council:** Is a formal governance body composed of family members that meets regularly to discuss family business matters, including succession, family employment policies, and dispute resolution (Jaffe, 2004).

**Leadership Vacuum:** A leadership vacuum is a period during which an organization has no clear decision-maker or leader, often resulting from the sudden departure or death of an incumbent leader without a prepared successor (Garman, 2004).

# CHAPTER TWO

## 2. REVIEW OF RELATED LITERATURE

### 2.1 Introduction

There are several theories and concepts associated with succession planning that are documented in the scholarly literature. These theories include relay race theory, planned behavior theory, and stakeholders' theory among others. Succession planning is further followed by succession planning practice theory, family business, and economic development theory (Saan, 2018). Family business is defined as "a business which is owned by a family, with an aim of shaping and or pursuing a formal or informal vision for the business and also having the purpose of passing on the business ownership to the next generation or the business already has been passed over to a family member who is managing it" (Venter E. B., 2005). Recent literature stresses the fact that family businesses are distinguished by the two-way interdependency of the family and business, aimed at achieving certain objectives through governance and management mechanisms (Arduino, 2025). The main theories discussed in family business literature include agency theory, resource based view theory, socioemotional wealth (SEW) theory, and stewardship theory (Arduino, 2025).

There is an extensive body of literature on succession planning through time, but there is consistent evidence to show that it is necessary for companies to create formal succession plans (Reif, 2025). The subject of succession is considered to be the best studied area in the family business literature (Reif, 2025). Following the study of various aspects of succession planning, (Saan, 2018) concluded that there has not been sufficient research done about family businesses, and there is a need for further research.

Family business succession is influenced by culture. Recent studies carried out on Sub-Saharan African family businesses have found that succession is influenced by both macro (institutional), meso (organizational) and micro (family) level constraints (Felix O., 2025). Constraints to inclusive succession include patriarchy, legal pluralism, and lack of institution protection, whereas within the organizations there is informal succession planning, inconsistent mentoring, and loyalty-based selection (Felix O., 2025). Loyalty, pride, and cohesiveness in maintaining a family business is more emphasized compared to other organizations (Taruvinga, 2011).

Additionally, it has been noted that integration of indigenous African knowledge based on the philosophy of Ubuntu, which is characterized by collectivism, unity, and interdependence, is crucial in establishing cultural succession models. Most of the succession models created in the West fails to accommodate African settings, and therefore, an approach that combines both the Ubuntu philosophy and Western management is required (Dzvairo, 2025). There are four major theoretical approaches which are associated with family businesses, and these include organizational ecology theory, behavioral theory, agency theory, behavioral agency, and social identity theory (Taruvinga, 2011). Apart from the theoretical approaches, there are models created by emerging scholars. Some of the models are very useful in analyzing succession planning process. From various models presented in the literature, most of the researchers agree that succession planning is more of a process than an event (Taruvinga, 2011).

In this chapter the researcher explores what succession planning is, its advantage, functions and difficulties faced. Present day study is necessary to reveal information gaps. The main objective of this chapter is to discussion other researchers' theories on the current study topics.

## 2.2 Succession Planning De-Classified

For the purpose of clarification, (Nel, 2017) defines succession planning in the following manner: "Succession planning can be viewed as an organized, systematic and deliberate organizational activity intended to ensure the survival of the organization, further competency creation and development and exploitation of this development from the point of view of what is expected of the future". Equally, it may be mentioned that succession planning refers to the mechanism which enables organizations to identify and prepare individuals for occupying top executive positions when the existing competent executives leave organizations. This is because business organizations do not always have their leaders remaining at the helm of affairs of the company forever, and as such, it becomes necessary to prepare individuals for taking up positions once they are vacated by the exiting employees. In the case of family owned business organizations where succession issues are critical (Venter E. B., 2005), succession planning shall be explained in relation to family owned businesses which belong to members of the same family in order to fulfill the vision of the business in terms of succession issues.

## 2.3 Theoretical Review

Notwithstanding the absence of universally accepted theory regarding family businesses, several theories and approaches have been developed to tackle the challenges inherent in family businesses (Gomba M., 2016). Therefore, many scholars have decided to use universally accepted theories in the study of family businesses. The succeeding sections elaborate on the four theoretical approaches that are extensively used in the field of family business studies: systems approach, principal agent approach, stewardship approach, and resource-based view of firm.

### 2.3.1 System Theory

One of the most comprehensively used theories in family business researches is system theory. One advantage of systems-theoretical approaches to family business research is their universal applicability to domains as different as market dynamics, family relations, and organizational operations. (Theresa Arnold, 2024).

The “Three-Circles Model of the Family Business System” was developed by Renato Tagiuri and John Davis at Harvard Business School, and was circulated in working papers starting in 1978. It was first published in Davis’ doctoral dissertation. It is one of the most prominent examples of a systems approach to family business. The model hypothesizes family businesses as a system that interacts among management, ownership, and family systems. Each system preserves its boundaries, which is what separates it from the other system.

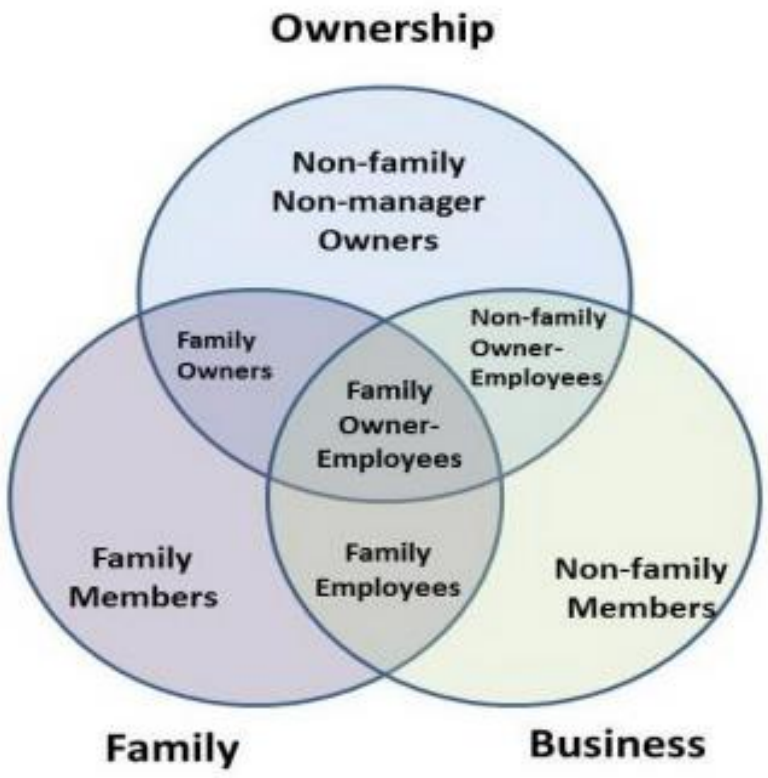



Figure 2.1: Three-Circle Model of the Family Business System

*Source: Siebels & Knyphausen-Aufseb (2012)*

The Three Circle Model is generally accepted as the standard model for family businesses and includes family, business and ownership as the three main components. The acknowledgment that there are three separate circles is a significant accomplishment for a family business. Too often, the circles are constantly intertwined. This results in poor communication, resentment and a lack of commitment to the future – the very things the business family is trying to prevent. Each circle has a governance structure and a plan. A family council would govern the family and prepare a family plan. A management team would lead the business and prepare a management development plan for succession and a business plan. A board of directors would govern the owners or shareholders and would be responsible for the strategic plan, continuity plan, contingency plan and the succession plan (Febrizal Rahmana).

Within the three circles, there are seven potential positions that intersect and overlap and that various individuals can hold. These positions can be the source of future successors for managers and owners. People normally change their positions over their lifetimes as they enter and exit the business or ownership. However, their family membership remains constant although their role in the family will evolve as they move from childhood to adulthood. Each circle contains various stages of development and each individual within the family, business or ownership circle can be at various stages of development. Therefore, consulting to family businesses is complex and requires the determination of the various stages of development for both the business and the key individuals and family members that are involved. The family stage depends on whether the next generation is working in the business or interested in working in the business (Febrizal Rahmana).

This theory accounts for the theory of three circles of Family Business and perceives family businesses as the interconnection of three systems. Therefore, a family business cannot be regarded simply as a company but one affected by the family and its ownership systems as well.

In order to ensure continuity of operations, there had to be understanding of interaction among all the systems. Factors which can affect the interaction among the systems and are atypical to the Ethiopia nation include social, economic or cultural factors. Nevertheless, the theory of System theory will still apply here since the system of theory recognizes the need to manage the interactions among the three systems.

### 2.3.2 Principal-Agent Theory

In Management studies if the aim is to understand and explain the major relationship between owners and managers this approach serves as the leading paradigm (Gomba, 2014). During the period of years 2000 – 2014 (Kristen Madison, 2016) do a research by analyzing 107 papers from 24 journals which referred to both of the above-mentioned approaches (principal agent theory and stewardship). According to the Principal Agent theory, people are motivated economically. They act in an opportunistic manner and strive for maximizing gains on their behalf without any concern for the harm/loss it might cause to the organization. The principal-agent approach suggests that family business should adopt governance systems where incentives and opportunistic behaviors are checked to avoid the risk of free-riding. (Jess Chua, 2004) argued that theoretically, the occurrence of agency issues happens through the manifestation of

the principal-agent concept through differences in interest, information, and bounded rationality, an argument reinforced by (Ernesto J. Poza, 2013) who stated that the agency approach captures the fact that the intentions and objectives of the various parties involved in the organizational setting might not be perfectly synchronized.

This means that it is impossible for the family business proprietors to completely understand all the conflicting interests of the non-family managers and thus not be able to predict whether they will put themselves first at the expense of the family business. It is important to recognize the fact that when it comes to the topic of family businesses, the family members who are part of the ownership can have their own personal motives and may even want to start their own businesses. For this reason, these concepts will definitely help in identifying what results might ensue and what aspects remain unexplored, especially when it comes to succession in Ethiopia.

The theory investigates the nature of relationships between owners and managers. It becomes crucial in situations involving family firms, especially when succession is in question. Differences in the interest of family and non-family members acting as managers can greatly affect succession decisions.

The researcher examined the principal-agent problem in family firms in Ethiopia. It is important to detect any form of opportunism and governance measures that can help in overcoming such tendencies to develop effective succession policies.

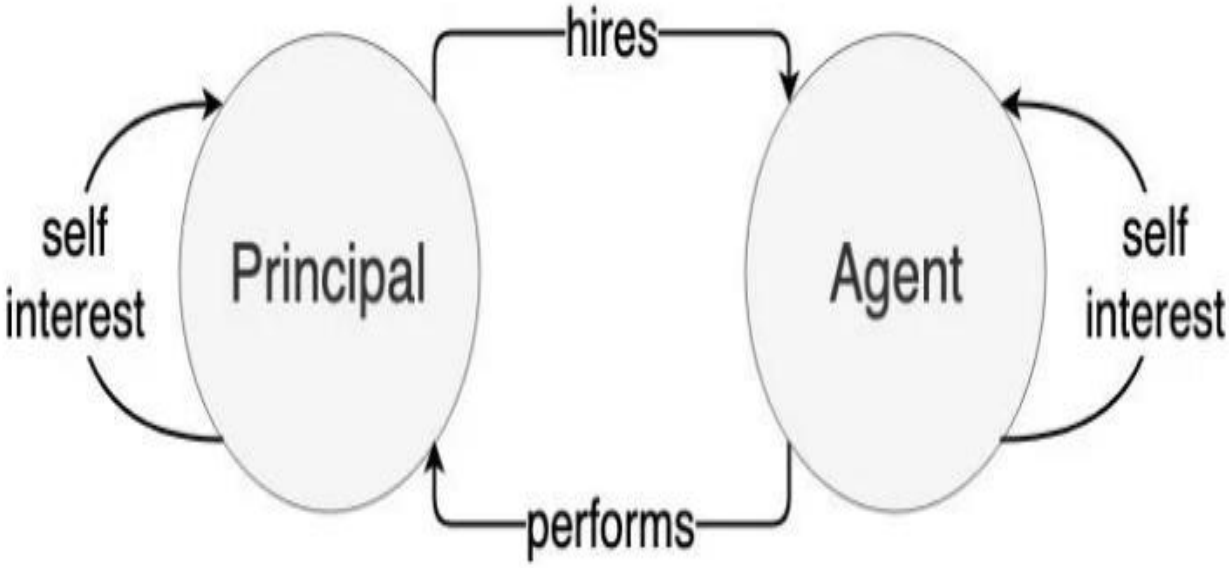



Figure 2.2: Principal-Agent Theory model

*Source: Jensen & Meckling, 1976*

### 2.3.3 Stewardship Theory

The agency problem cannot arise in the context of a single owner-managed family business because the owner and the manager will be a single person. This idea is supported by (James J. Chrisman, 2017). However (Jan Folke Siebels, 2012). holds a different opinion in this regard. Jan Folke Siebels states that according to many theories of stewardship, it does not matter who owns the business. In any case, it is safe to assume that managers will work in the best interests of their stakeholders. It is believed that the social and emotional engagement of family and business promotes overall wellbeing. Collectivist culture as opposed to individualist culture (Hofstede's cultural dimensions) should be fostered for any enterprise but especially in a family-owned business. According to (Ernesto J. Poza, 2013), the challenge in transferring ownership is that the founders do not like to lose control over the business since pride is one of their top priorities as they view the family enterprise as a representation of themselves and have an inseparable legacy linked to their wellbeing. Hence, the behavior of the owners/incomers is critical to the overall transfer. That is because, if the owner cannot accept the fact that one day he will no longer be in charge for various reasons, then family members, who were supposed to

participate in the family enterprise, may opt out of it. At that point, the firm will cease to exist if the family members fail to assume control over it.

This view assumes that regardless of whether managers have an ownership stake or not, their actions will be inherently driven by what is best for the organization. For the particular case of family firms, the emotional and social ties involved may increase such stewardship tendencies.

Stewardship behavior was investigated in its impact on succession in family businesses in Ethiopia. The reluctance of the founders to cede control can be an excellent starting point for exploring possible obstacles on the way to succession, as well as developing solutions to overcome them.

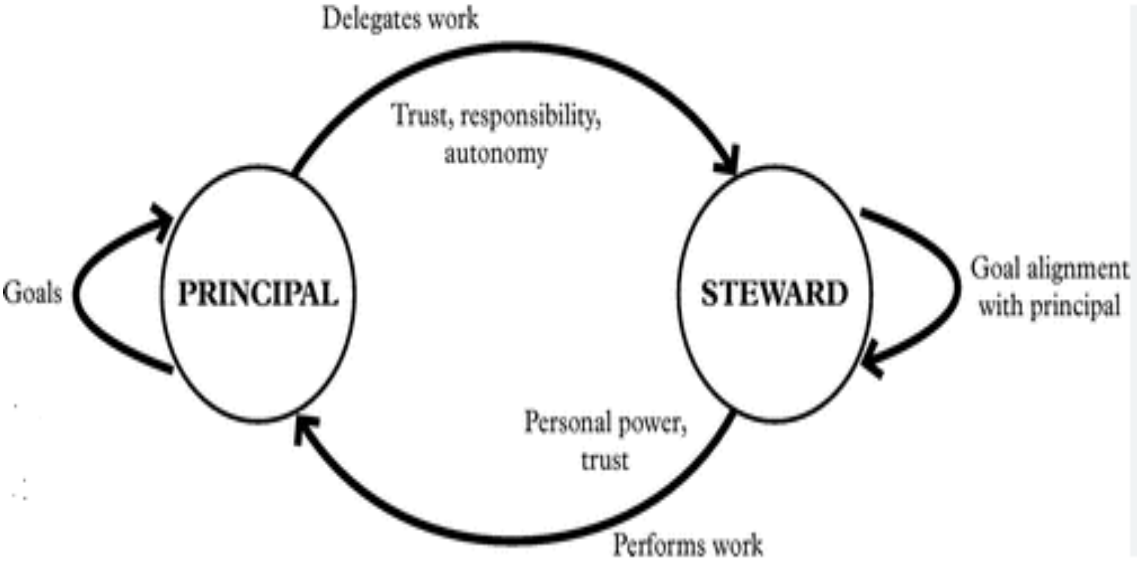



Figure 2.3: Stewardship Theory model

*Source: Davis, Schoorman, & Donaldson, 1997*

### 2.3.4 Resource-Based Theory of a Firm

As pointed out by (Jan Folke Siebels, 2012) and (Ernesto J. Poza, 2013) , the competitive advantages available to the family firm can be better captured through the perspective on organizations offered by the agency theory. The resource-based approach highlights the fact that unique features of the family firm can provide the basis for competitive advantage. According to (Cabrera-Suárez, 2018) and (Nadine Kammerlander, 2018), members of the family will tend to be more accommodating towards each other and ensure skills transfer, thereby improving organizational performance in the long-run.

Such a theory highlights the unique capabilities and assets of family business firms that can be used as an advantage. The relationship among family members may make the transition process smoother as there is easier transfer of knowledge and skills.

The research study examined the role of these natural resources of the family business and how they affect succession models in Ethiopia. Through highlighting these natural resources, the researcher came up with ways of exploiting them to ensure successful succession models.

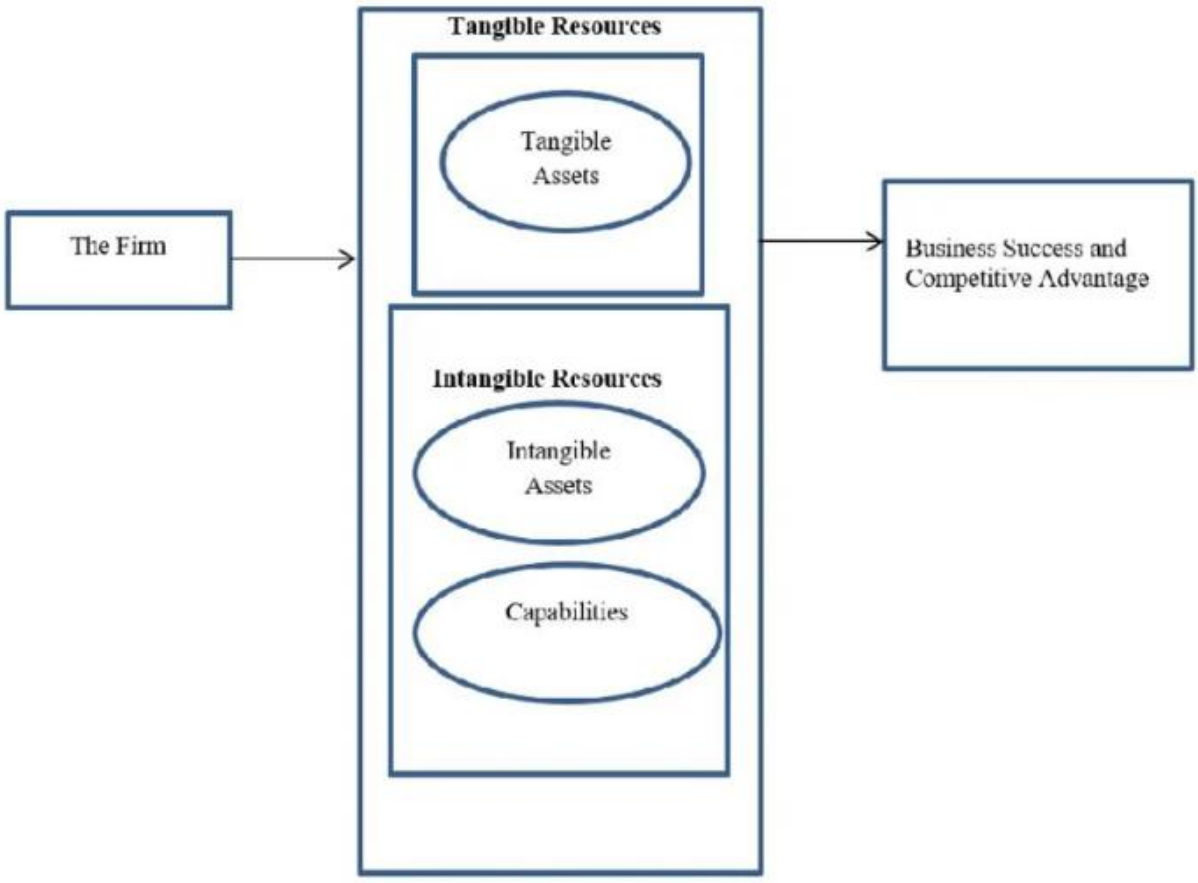



Figure 2.4 Resource-Based Theory model

*Source: Barney, J. (1991)*

## 2.4 Succession Planning Practices and Business Continuity

### 2.4.1. Formal Succession Planning

Formal succession planning refers to the establishment of an official plan where there is documented evidence that outlines a detailed timeline for the leadership change. It entails the development of specific requirements that guide the process of selecting the successor and incorporate any contingencies that may arise due to the sudden departure of the leader due to issues such as death or illness (Rothwell, 2015).

### 2.4.2 Successor Development

Development of successors consists of the development processes involved in preparing a future successor to have the right skills, knowledge, and qualities that are necessary to manage the family business. Development of successors is, thus, a process that is characterized as a long one that involves both experience and learning within the organization. According to (Wang, 2017) , successful successors are in a better position to lead than untrained successors because they are made to lead.

### 2.4.3 Family Governance Structures

Family governance structures refer to all the methods by which a family runs itself with regards to its connection with the company, dispute settlement, and decisions related to succession. (Jaffe, 2004), suggests that families which successfully sustain themselves from one generation to another usually consist of intricate layers of structures, agreements, councils, and accountability frameworks. Examples of some of these structures within a family are having a family council, family meetings on a constant basis, well-defined roles for each family member, and dispute resolution systems.

### 2.4.4 Stakeholder Communication

Stakeholder communication in the context of succession planning refers to the intentional process of introducing the identified successor to key internal and external stakeholders who will be affected by the leadership transition. (Khurana, 2002), argues that as stakeholders need to develop confidence in the successor before the actual transition, introducing the identified successor build legitimacy and trust.

### 2.4.5 Successor Readiness

Successor readiness is the degree to which the identified successor possesses the competence, experience, motivation, and relational capacity to assume leadership of the family business. The successor might be technically proficient but might lack success if he is not willing to lead or is unable to collaborate effectively with the founder. Therefore, readiness is a multidimensional concept involving ability, willingness, and relationship quality.

### 2.4.6 Business Continuity

Business continuity is the capacity of a company to maintain the supply of its most critical goods, services, and internal processes throughout the leadership transition.

### 2.4.7 Leadership Continuity

Leadership continuity is characterized by the seamless and unambiguous transfer of decision-making from one leader to another. Leadership continuity is characterized by acceptance by stakeholders of the new leader, trust in the capabilities of the successor on the part of members of the family, and lack of leadership voids.

### 2.4.8 Operational Continuity

Operational continuity is defined as the capacity of a family-owned business to continue its day-to-day activities, client interaction, supply chain, and institutional memory despite a shift in its leadership. High levels of operational continuity are characterized by low disruption to basic business processes due to a change in leadership.

#### 2.4.9 Organizational Sustainability

The concept of sustainability in an organization can be defined as how well the family firm performs and is prosperous in the future generations of management. This includes financial success after the transition of leadership within the firm, the probability of survival of the business in the future generations, a low level of family conflict that may affect the survival of the firm, and long-term strategy formulation.

## 2.5 Factors Affecting the Adoption of Succession Planning

Though success planning is recognized as important for ensuring business continuity, many studies have revealed that most family-run companies do not undertake such planning activities. It is important to understand what influences adoption of succession planning because understanding the determinants of this issue can help explain why the Ethiopian family-run firms lack succession plans despite being at risk of failing.

Among the most common barriers are cultural practices, which entail the social and familial expectations that determine the choice of succession, irrespective of whether it is strategic or not. (Taruvinga, 2011), performed a comparative study of South Africa and the US and concluded

that cultural practices play an important role in management succession and sustainability of enterprises run by families. An important barrier is the reluctance of the founders to retire. The founders' reluctance to retire prevents succession from being planned in a timely manner, prevents appropriate preparation of successors, and forces the founders to stay in charge despite their diminished performance. Lack of a successor is another important barrier.

The issues surrounding the implementation of succession planning in family-run firms are multi-faceted, ranging from cultural issues, psychological issues, human resource issues, legal issues, informational issues, and financial issues. Such issues tend to work together. For instance, the reluctance of a founding member of the family firm to leave might be enhanced by the culture giving preference to the eldest son. Understanding these interconnected factors is essential for developing effective interventions to promote succession planning in Ethiopian family-owned businesses.

## 2.6 Factors Affecting Survival of Family Owned Businesses

Research suggests that only 30% of family firms in the USA survive into the second generation of family ownership. In addition, approximately 15% to 16% of family businesses survived into the third. The comparable numbers in the UK are 24% and 14% respectively. Another study documented that only 30% of family businesses in the UK reach the 2nd generation, less than 2/3 of these firms survive through the 2nd generation, and only 13% survive through the 3rd generation (Zahra, 2004). The fact that very few family businesses survive beyond the first generation is thus rather universal and independent of cultural context or economic/business environment. Unlike non-family businesses, the efficient functioning of family businesses is often affected by the life cycle of the founder (Astrachan, 2003).

According to (Bjuggren, 2001) an often cited reason for the low survival rates amongst family businesses is the practice by families in handing over their businesses to their offspring, instead of more competent professional managers. It was suggested that the third generation, being born with a silver spoon, lack the drive to sustain, let alone expand the family business. Instead, they take the accomplishments of their parents and grandparents for granted, and concentrate on maximizing the enjoyment of the fruits of labor of their ancestors. A number of studies in succession planning have been conducted to identify the factors that are important to ensure a successful hand over of a family business from one generation to another. Studies have also

suggested that failures and break-ups of family businesses occur due to power struggles and internal feuds amongst siblings and members of the extended family, to give up their central roles in the management of the businesses and to relinquish control and power in the businesses (Klein, 2000).

As a result of historical evolutionary reasons, most countries have family businesses constituting the largest category in terms of ownership; estimates do vary, but is above 75 percent in all cases (Tucker, 2004). About a third of the companies listed in Fortune 500 are family businesses. Since they normally do not have short term orientation but are interested in growing the family wealth with necessary precautions and have a different set of strategic goals compared to non-family owned private companies, their long term contribution to economy is significant.

However, long term sustenance of family business depends on its smooth survival across generations. Families that successfully survive three or four generations have a complex web of structures, agreements, councils and forms of accountability to manage their wealth (Jaffe, 2004). This seems to be more evident in the west compared to emerging economies such as India. Reflecting on the complexity of the process involved, succession planning has been an area of keen interest for researchers. This could be for a variety of reasons. Organizational transition from an entrepreneurial stage to a system driven, professionally managed firm is not easy, and involves evolutions, revolutions and crisis. Also, there is often a simultaneous process of transformation taking place in the family and business with the size of activities of both growing.

Although ownership and management succession are the key concerns of a large number of business families, they do not devote enough attention to the process involved. A Study by (Watts, 2004) has reported that families hesitate to address this issue. Succession dilemma is also closely related to the family policy on entry of new generation, retirement of incumbents and mechanisms for resolving conflicts.

## 2.7 Empirical Review

Initial scholarly studies mainly included the disruptive notion of business founder replacement (Grusky, 1963). (Grusky, 1963), and (Carroll, 1984) focused their qualitative case studies on exploring and identifying possible adverse effects to organizations after a replacement of a

business founder. (Carroll, 1984), examined the effects of succession planning in local newspaper organizations setting special attention on the organizational context of the succession, timing relative to the life cycle of the organization, and the type of control structure. In the same study (Carroll, 1984), indicated that rates of survival decrease after succession of founder, supporting the argument of the benefits of succession planning to transition organizations controlled by individuals (Giarmarco, 2012). (Carroll, 1984), also suggested that successions are most precarious when the transfer of control occurs in small entrepreneurial businesses like newspapers; the founder may contain much of the structural blueprint for organizational activity in his head. If this blueprint is not properly shared before the founder leaves, the organization might lose critical practices and operating procedures.

In the context of emerging economies (Godfred Etse Klugah, 2025), a study examining family-owned SMEs in Ghana's hospitality sector found that succession planning positively influences firm performance. The researchers were able to prove via PLS-SEM that structured leadership transitions positively impact organizational performance and that such an impact is mediated through resolving succession-related problems. As per their findings, formalized succession is especially necessary in emerging economies where there might not be a well-developed framework governing business succession.

According to (Venter E. B., 2005), some empirical evidence exists for factors related to the successor, which have been proven to be the greatest contributors to a successful succession process, including successor competence, willingness, and the quality of his relationship with the incumbent leader. These findings were based on survey results obtained from small and medium-sized family businesses and were tested using structural equation modeling.

Succession satisfaction research conducted by (Juan M. Gómez, 2025) showed that the culture norms played an important role in influencing succession planning implementation. High power distance cultures create hierarchies that make it difficult for successors to gain autonomy, which could affect their satisfaction levels. Therefore, the succession planning processes need to respect the cultures for success.

(De Massis, 2008), identified complex legal and regulatory issues as some of the major factors responsible for blocking the process of intra-family succession. The research found that

transaction expenditures including taxes, retirement compensation, and restructuring costs represent a significant burden for family business organizations, often deterring formal planning.

(Maryam Ahmadi Zahrani, 2014), performed a study in Tehran, Iran with 120 family business supervisors and managers and suggested five elements for the success of succession planning: preparation of successor candidates, focus on key roles of the company, description of succession planning process eliminating ambiguities, continuous measurement and feedback on development of candidates, and enough flexibility for owners to adjust and improve succession planning process. (Maryam Ahmadi Zahrani, 2014), concluded that the higher the whole satisfaction with a family business' succession plan, the higher the whole effectiveness of the family business' succession planning process. (Maryam Ahmadi Zahrani, 2014), suggested the essential attribute of potential successors to be patient and empathetic with founders' needs and sensitive to family organizational culture.

In Europe an average of 690,000 small and mid-sized family business organizations change management and ownership each year. The impact of this transition has an influence on 2.6 million jobs in the European Community (Christian Koropp, 2013). This fact has recently attracted the attention of scholarly studies. However, the literature on succession planning is still fragmented and incipient. A study with 187 family firms in Germany exposed unique characteristics of succession planning: limited financial resources of family firms, which normally prefer go into debt rather than sharing equity for financing needs (Christian Koropp, 2013). (De Massis, 2008), suggested that financial needs during business successions mainly arise from transaction expenditures, such as taxes, retirement compensation of owner, and restructuring costs of assets and human resources representing a significant burden for the survival and success of the family business organizations. (Christian Koropp, 2013), found the association of debt usage during family business successions with the family owners' intention to keep family ownership and control. Studies of, (Christian Koropp, 2013; Maryam Ahmadi Zahrani, 2014) found positive influence when highly motivated successors are taking part in the process of succession planning.

In Lagos State, Nigeria, (Ogbechie, 2015), conducted a study on succession planning in family-owned enterprises. The study's demographic comprises all family-owned businesses in Lagos, Nigeria. The study used a purposive selection strategy to choose 80 participants (family business

owners/founders) from the public. Despite the fact most family businesses do not have a succession plan the findings suggest that it is not the most important factor contributing to the difficulty of succession. They discovered that the problem of inadequate succession in family-owned enterprises in Nigeria was caused by various factors like cultural norms, current leader reluctance to retire and a lack of qualified or interested next-generation family members to take over.

(Nkam Micheal Cho, 2017), conducted a study in Cameroon's Northwest and Southwest Regions to identify the factors that influence the sustainability of family-owned businesses and to offer ways to both the state and family business owners to address the problem. Purposive sampling was employed to create a survey-based strategy. A questionnaire and interviews were used to research thirty family companies. The data was examined using SPSS 17 software tools, and both quantitative and qualitative research methodologies were applied. The sampled opinions of the respondents were summarized using descriptive statistics. The findings revealed that most family business founders do not always consider sustainability before passing away, and so do not plan for succession.

Overall, reported lived experiences of family business owners and leaders on succession planning are quite similar across different nations and cultures. The issue of balancing the high interdependency between founder's willingness to retire and potential successor's ambition to take over is frequently found in U.S., Middle East, and European studies (Christian Koropp, 2013; Maryam Ahmadi Zahrani, 2014). In spite of the high value of succession planning assessed by academic research on the lifecycle and success of family organizations, the lack of efforts in implementing succession planning, and lack of qualified or interested next generation family members commonly witnessed in business studies. There were no conflicting findings comparing issues among different worldwide studies related to preparation and implementation of succession planning.

## 2.8 The Rationale behind Succession Planning In the Organization

Leadership positions come with definite lengths within organizations, and very soon enough, it becomes clear that these same leaders are bound to leave the organizations at one point in their lives because of reasons such as retirement, death, resignation, or termination from duties. This

unpredictability and certainty make it necessary that strategies need to be developed to ensure that these organizations do not experience leadership crises whenever such occurrences take place (Wolfred, 2018). Organizations, therefore, can avoid such crises by formulating succession plans that enable experienced leaders to pass along their knowledge to less experienced individuals before they exit the organization, even those within family businesses.

The trends in the global village like technology, changes in immigration regulations, and globalization of production processes are forcing organizations to do things differently (Hills, 2009). The demographic shifts in the global village, new opportunities, and the relaxation of immigration policies further exacerbate the issue of losing key personnel within the organizations. It is becoming increasingly difficult to find replacements for the key personnel in the event of their resignation or retirement if there was no plan in place to counter such eventualities. All these issues affect firms running as family businesses, and it should be noted that not all family businesses are harmonious. For example, one of the founding members may get a good opportunity elsewhere, then what happens to the firm? The other thing is that the middle level managers in some of these organizations lack the required skills and experience needed to assume upper management positions. This creates the need for succession planning. There are a number of factors today which make organizational success and breakthrough performance increasingly difficult. One of the unique things that have been observed by various researchers and academicians is the fact that most of the CEOs from most developed nations are going to retire soon, and these individuals must be replaced. This does not happen only with developed countries, but it also takes place with developed nations.

Furthermore, with organizations losing upper-level managers due to retirement, resignations, and organizational restructuring, the number of potential upper-level managers also reduces. Without a proper succession planning process, organizations might find it difficult to move middle-level managers into upper-level management positions due to skill weaknesses or lack of needed experience (Hills, 2009). For instance, the concept of successional planning cannot be confined to organizations that earn profits but must extend to family-run organizations as well as organizations like schools, colleges, or universities. Successional planning can either be viewed from the angle of making profits or not making profits, but business administrators have to keep in mind the importance of sustaining their enterprises.

A good succession plan should always be available for all companies. As such, since non-profit making organizations have characteristics that are similar to those of private organizations and government firms, a good succession plan for a non-profit making organization would apply to a government organization and to a private business entity. One should take into consideration that as much as there is one world, the differences in culture in various countries make it difficult for some people to understand the concept of succession planning. This is because, once the founders do not realize that they operate in a certain environment, they might find it hard to persuade the founder about succession planning. It is very important for leaders to think about succession planning since their vision and passion may end up dying once they are out of the business (Lowan, 2016).

## 2.9 The Importance of Family Owned Businesses

The growth in the use of family owned businesses will continue to grow as their significance is recognized (Taruvinga, 2011). Developed and developing countries are equally embracing the family owned business model as the preferred way of doing business. The family owned business has been determined to be the predominant business model and thus considered to be the main pillar of the global economy due to the fact that they form between 67 and 90 percent of all businesses globally (Venter W. P., 2004). The majority of successful businesses in the world are family owned businesses.

The significance of FOBs in promoting economic development within the community, creating jobs and setting up enterprises has gained recognition worldwide. Looking into this from the viewpoint of Ethiopia, FOBs may be regarded as the greatest generators of jobs and wealth. Most of the jobs created for the unemployment population, who may not even have much education, are FOBs. In addition to this, FOBs provide the members of the family an option of employment, (Taruvinga, 2011). Thus, as long as FOBs continue running, it ensures that people remain employed, take care of their families and therefore create wealth for themselves through generations. Despite the fact that FOBs have been associated with small businesses when it comes to South Africa, the great corporations like The Pick n Pay Stores (Limited), Anglo American Plc., which is one of the largest diversifications of mining and mineral resources company in the world, and Remgro Limited, which was established by the Rupert family, are listed on the Johannesburg Stock Exchange (JSE) (Taruvinga, 2011). Hence, it is true that FOBs

can be overstated due to the fact that they have a possibility of providing jobs to the locals and stability as well. People will be able to help each other because of the fact that they have a great feeling of family within them.

## 2.10 Family Member Influence and Succession Planning

Basically, succession planning becomes the channel and one of the most important instruments of business survival and success in the knowledge economy that deserves proper attention from businesses. In this regard, in those organizations that have clear policies and strategies for succession planning, interests of employees are balanced, and appropriate replacements for senior roles are easily located (Nel, 2017). Thus, it is evident that succession planning plays an important role in addressing the issue of personnel replacement.

There are several roles that succession planning has in ensuring the efficiency of organizations. This is because succession planning helps in ensuring that there are sufficient top-level managerial talent; helps in ensuring that organizations do not promote their managers at a time when they are not fully prepared to be part of the higher levels of management; and also help organizations train their managers for current and future needs. Therefore, it can be seen that organizations which lack succession plans only rely on reacting to the eventualities that come along through panic. Organizations' leaders associate succession planning with huge profit making companies.

In an ideal case scenario, one should locate and prepare the heir apparent to take over smoothly, like an athlete who takes the baton from the other and runs away with it. Hence, when succession planning becomes the standard practice across all companies, it will guarantee that the organization becomes stronger and better positioned to create a greater impact within the communities they work with (Ward, 2020) It was also found out that organizations tend to shun training the staff because they want to avoid having employees leave the company for other opportunities; but when employees resign, skill training does not constitute loss because the whole network wins when the workers become competent in handling community issues effectively and economically. There is a need for succession planning as well as skill training to strengthen the humanitarian network for a greater impact on people and communities (Ward, 2020).

Similarly, (Rothwell, 2015) notes that succession planning affords an increased opportunity for identifying talented employees, meets the need for identifying replacement needs as an approach for training and development of employees, and expands the pool of promotable employees. Succession planning was also identified as having benefits including ensuring the implementation of the strategic business plans of the organization, helping employees achieve their career objectives in the organization, and leveraging on the potential of intellectual capital available in the organization, (Lowan, 2016). Succession planning also helps improve the performance of diverse groups of employees, enhances employee adaptability to environmental changes, and boosts employee morale, (Lowan, 2016). Additionally, founders/leaders will have different challenges than a third or fourth-generation leader.

There are various reasons why succession planning can benefit organizations. Succession planning enables managers to go through a range of development programs to earn their eligibility for management positions. This approach ensures that managers do not move on to upper management positions too quickly, before they are truly ready for such positions. In addition, succession planning serves as an aid for retaining talented managers through development programs.

## 2.11 Challenges Facing Succession Planning

Succession planning is always associated with corporations in the for-profit sector where the concept centers on the identification of the next executive heir-apparent who will lead and continue the legacy. According to (Wolfred, 2018) Challenges that affect succession planning include the possibility that the identified successors might quit, thus forcing the organization to return to searching for another successor, lack of backing from top executives within the corporation as well as corporate politics which means that instead of identifying the successor based on potential and track record, the managers at the top may use corporate connections to get promotions to their friends while sidelining their opponents regardless of ability and qualifications. Corporate politics may overshadow performance and potential as a yardstick for advancement according to (Wolfred, 2018) Additionally, succession planning is limited by the fast-fix approach to leadership whereby effectiveness is put aside in favor of expediency which may be detrimental since unqualified leaders could lead to high rates of turnover among their subordinates and even bankruptcy of businesses otherwise in good condition.

In addition, there are certain shortcomings in organizations like the absence of strategic objectives, non-participation of the CEO in the process, poor business results, and failure to establish the necessary training and personnel programs (Karaevli, 2003). Moreover, it was found out that among the succession planning issues that exist include, but are not limited to, having few qualified candidates, lacking planning for the long run, poor capabilities of the present incumbent in training future leaders, and not desiring that employees “stand around” while they are being trained as successors.”

Specific problems associated with succession have been identified by (Getz, 2004) They include the possible non-existence of successors; life stage differences, as in cases where the entrepreneur has aging parents and young children; children's unwillingness to take over and their negative attitude towards the business; and discrimination, particularly discrimination against daughters. Moreover, he emphasizes external barriers including the sustainability of the enterprise and those related to inheritance tax law. While there exist many reasons why succession planning can become a challenging task for any organization and family considering all the benefits of a successful succession, such barriers can pose serious obstacles, discouraging many companies from implementing succession planning. According to him, besides all problems associated with costs, time, and proper management, succession planning brings about a new level of risks. While succession planning is vital for many enterprises and families, it does not guarantee any success, which is another reason why succession planning poses a challenge. However, even though a company has successfully overcome all the listed difficulties and made up its mind to engage in succession planning, "the question remains as to how to do it?""

## 2.12 Strategies Applied In Family Business Succession Planning

The paper by (Wang, 2017), has examined the linkages between success factors and business performance, offering a generic model for developing a succession plan. However, in reality, it seems challenging to establish a general understanding or approach towards the development of such an approach to succession planning. Thus, the absence of the unified standard raises a number of research issues that make it possible for evidence available today to be evaluated and combined in a practical tool. Although it may seem that there is no right way to conduct the process of succession because everyone does it differently (Rothwell, 2015), it is still necessary to identify techniques involved in the process.

From the review of the available literature, one can observe that the succession planning process involves three main areas, which include family business considerations, formulation of a succession plan, and methodological considerations. In this regard, one can observe that it is recommended that there be a consideration of issues such as psychological and business issues (family business and non-family business issues, gender), business plans, and objectives. There is a need for greater attention to be paid to issues such as the legal aspect, which involves aspects such as the sole trader, partnership, and limited company, as well as succession legislation involving these types of business. Other considerations include financial aspects, which entail business valuation and methods of financing business transfer. Tax issues should not be overlooked as well, which include the tax burden associated with the transfer of businesses.

But the method recommended by (Pitcher, 2016) captures exactly what ought to be included in a plan while undergoing the process of succession planning including, but not limited to, pre-succession company assessment and valuation, nature of current owner/CEO departure, current owner/CEO characteristics; events leadership development, successor characteristics, identifying the right successor; and post-succession company performance, stock market reactions, leadership assessment and many others. Additionally, much consideration must be made on the assessment of the current business to find out whether it is eligible for succession (antecedent). In particular, much emphasis is laid on the point that, essentially, firms which are considering succession must assess the current state of the firm and the characteristics of the business to establish whether it is an appropriate means of exiting the firm.

As regards timing, it is recommended that complete planning will take a lot of time – from three to ten years until the owner is about to leave (Woodfield, 2017), while quick and dirty plans will need around 20 weeks to create. Moreover, it has been mentioned that new managers will spend 12 to 18 months getting used to their new working conditions and becoming productive.

(Garman, 2004), proposed "it is essential to have a proper assessment done of the company before implementing any form of succession plan. As a good place to start from, one way of assessing the succession needs of an SME business includes looking at the following three components: business objectives, assets and skills and expertise; this combination has been described as the Succession and Exit Position (SEP). (Hawkey, 2002), also provides some valuable information when it comes to determining the most appropriate type of exit strategy,

providing more emphasis on financial issues. On the topic of personnel, (Rothwell, 2015) highlights the importance of considering the frequent occurrence of positions becoming unnecessary through succession. These approaches can be beneficial because they help a business assess whether succession planning is the best course of action or not. In addition, the value of the financial side of a business can be assessed through professional financial valuations, and possible obstacles to sales can be taken into consideration. Furthermore, it is essential at this point to consider the issue of family or non-family successor as highlighted above, and even more specifically the methods that can be used to identify and prepare the likely successor."

## 2.13 Succession Planning Benefits

(Sharma, 2003) participant researchers in a qualitative case study of 604 Canadian family-owned organizations concluding that succession planning improves satisfaction among employees. (Sharma, 2003) reported several parallel benefits of succession planning in the business literature such as employee engagement and motivation. Employment engagement, improved productivity, and motivation are a consequence of the positive perception of succession planning on the part of employees, which normally symbolizes care and value transferred from the business leaders to the workforce (Sharma, 2003). An employee always appreciates a succession plan for professional development and advancement resulting in higher levels of engagement and loyalty to the organization. Succession planning is very important for all the different roles and positions in any type of business organization. However, the most attractive contributions and returns of succession planning are identified at the executive level (Garman, 2004). An additional benefit of succession planning is to prevent depreciation of the value of the company after the scheduled or non-scheduled departure of the CEO. The strategic responsibility and commitment of business owners and CEOs are highly important for the sustainability and profitability of organizations. (Giambatista, 2005), found a negative impact of CEO turnover on financial performance of business organizations employing a long-term research from 1971 to 1994. Consequently, it is relatively easy to assess the considerable effect of succession planning on executive job roles of the organizations (Dar L. Worrell, 1987). The disruption of having a CEO leaving the company can cause significant losses to organizations, dissention of executives and investors, and abrupt discontinuation of on-going programs and strategic activities (Garman, 2004), Family business

leaders should find a successor with the right competencies and abilities to take control of an organization. A recruitment process involving unqualified employees in top leadership positions could lead to significant problems for an organization. It is well known and supported in the business literature that the role of the chief executive officer is critical to any organization's survival and success.

(Dar L. Worrell, 1987), identified the positive impact of succession planning on replacement of CEOs measured in different organizational performance metrics, such as replacement time, readiness of successful internal candidates, and recruitment costs. Moreover, the implementation of components of succession planning demonstrates an encouraging correlation with key organizational performance metrics such as personnel retention, productivity, and profitability metrics. Despite all the well-known, proven benefits of succession planning, family business owners in America are not taking succession planning seriously as a top priority. Almost three of every four family business are failing to survive to second family generation (Giarmarco, 2012). Family-owned business stakeholders' employment and wealth could be severely affected by the lack of succession planning with significant negative effects on the American economy (Giarmarco, 2012).

## 2.14 Conceptual Framework

A conceptual framework is a visual and written representation of the main concepts that a study intends to explore (Matthew B. Miles, 2014). The conceptual framework of this study is grounded in Systems Theory and the Three-Circle Model of Family Business Systems, which explain that family businesses operate through interconnected family, ownership, and business systems. Effective succession planning practices are expected to positively influence business continuity in family-owned businesses (Reif, 2025).

The study conceptualizes succession planning practices as the independent variables and business continuity as the dependent variable.

The framework assumes that effective successor identification, leadership development, knowledge transfer, governance structures, succession communication, and successor readiness contribute positively to business continuity outcomes such as organizational sustainability, operational continuity, leadership stability, and long-term survival (Sharma, 2003).

## 2.14.1 Variables of the Study

**Independent Variable (Succession Planning Practices)**

This is the predictor variable that the study hypothesizes influences business continuity. It is measured as a composite index based on the following dimensions:

- Formalization of succession plan (written, documented, with timelines)
- Successor development mechanisms (mentoring, training, job rotation)
- Family governance structures (family council, regular meetings)
- Stakeholder communication (introducing successor to key stakeholders)
- Successor Readiness (competence, willingness, collaborative relationship with founder)

**Dependent Variable (Business Continuity)**

This is the outcome variable that the study seeks to explain. It is measured as a composite index based on three dimensions:

- Leadership Continuity
- Operational Continuity
- Organizational Sustainability

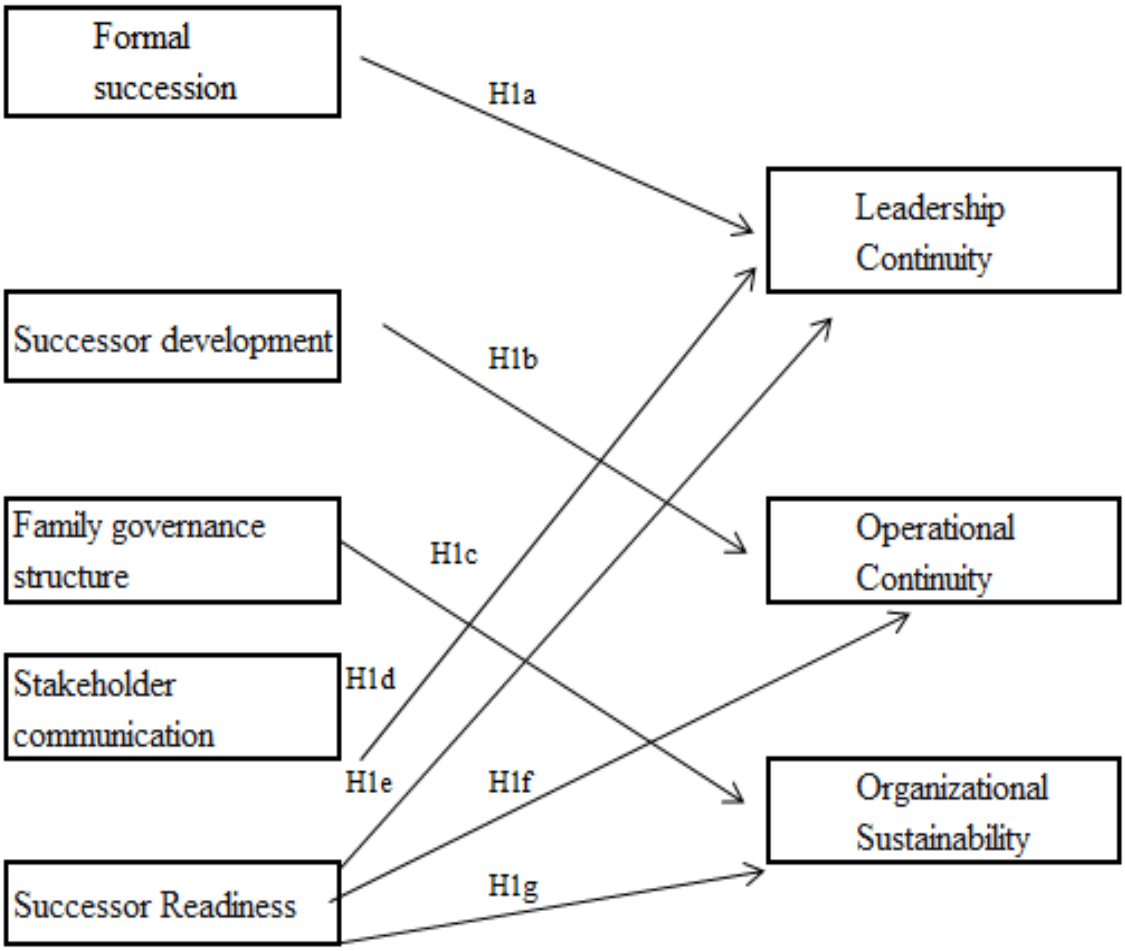



Figure 2.5: Conceptual Framework based on System Theory

The conceptual framework presented in Figure 2.5 will be operationalized as a PLS-SEM path model using SmartPLS 4 software (Ringle, 2022). The five dimensions of succession planning practices (formal succession planning, successor development, family governance structures, stakeholder communication, and successor readiness) will be modeled as independent variables directly predicting the three dimensions of business continuity (leadership continuity, operational continuity, and organizational sustainability) as dependent variables. This first-order model is preferred over a higher-order construct approach as it allows for separate examination of how each succession planning practice influences each specific dimension of business

continuity, providing more granular insights for Ethiopian family businesses (Hair J. F., 2019). Business continuity will be measured as three distinct but related reflective constructs rather than a single second-order construct, consistent with the study's objective to analyze specific relationships between succession practices and continuity outcomes.

## 2.14.2 Hypotheses

Based on the conceptual framework, the following hypotheses are formulated for testing:

**Main Hypothesis:**

- **$H_1$:** There is a statistically significant positive relationship between succession planning practices (formal planning, successor development, family governance, stakeholder communication, and successor readiness) and business continuity in Ethiopian family-owned businesses in Addis Ababa.

**Sub-Hypotheses:**

- **$H_1$a:** Formal succession planning has a significant positive effect on leadership continuity.
- **$H_1$b:** Successor development has a significant positive effect on operational continuity.
- **$H_1$c:** Family governance structures have a significant positive effect on organizational sustainability.
- **$H_1$d:** Stakeholder communication has a significant positive effect on leadership continuity.
- **$H_1$e:** Successor readiness has a significant positive effect on leadership continuity.
- **$H_1$f:** Successor readiness has a significant positive effect on operational continuity.
- **$H_1$g:** Successor readiness has a significant positive effect on organizational sustainability.

# CHAPTER THREE

# 3. RESEARCH METHODOLOGY

## 3.1 Introduction

The research needs research design to have master plan specifying the methods and procedures for collecting and analyzing the needed information. This research used different methodology to collect data from the populations that are directly or indirectly involved. The details will be discussed in the subtopic below.

## 3.2 Research Design

Research design is the general plan through which the research questions are to be addressed (Saunders, 2012). This study adopts a mixed-methods explanatory research design, prioritizing a strong quantitative foundation using Partial Least Squares Structural Equation Modeling (PLS-SEM) as the primary analytical technique. PLS-SEM is a variance-based structural equation modeling method that is particularly appropriate for this study.

The quantitative approach uses a cross-sectional survey to collect primary data from family business owners and managers in Bole Sub-city, Addis Ababa. The cross-sectional design is appropriate as data are collected at a single point in time to examine the relationships between succession planning practices and business continuity (Saunders, 2012).

## 3.3 Target Population

Since the research is about succession planning on family business the target populations are family-owned businesses operating in Addis Ababa Bole Sub City that have been operational for a minimum of five years and where family members hold ≥50% ownership and strategic influence. The demographic scope targets primary decision-makers: founders/owner-managers, senior family executives, next-generation family members, and non-family senior managers involved in leadership development or strategic oversight.

According to the article by (Mesfin Lemma, 2024), the report of the Addis Ababa Trade and Industry Development Bureau states that, there were 44,498 different business enterprises owners in 2010 with in the 10 sub cities. However, this number is not disaggregated into family-

owned businesses and other variables. It is compounded in many African countries where, largely because of lack of resources, there are few national formal data collection structures in place. Even if out of the total population 80% can show family business so, we can get roughly 35,598 family owned businesses in Addis Ababa in 10 sub cities. Specifically; Lideta - 1071, Kirkos - 2140, Bole - 5944, Nifas Silk - 4761, Arada - 1848, Akaki Kaliti - 3330, Adis ketema - 3666, Kolfe Keranio - 5186, Yeka - 4319, and Gulele - 3329. Target groups were contacted from their business premises. Before they responded to the question, the researchers verified if their businesses fall within the definition of family-owned businesses category. Moreover, samples were selected based on the researchers‟ capacity and sample manageability. Therefore, respondents were selected as a sample because of their direct roles and responsibilities. From all the 10 sub cities, the researchers selected Bole Sub City, which is selected based on greater quantity of prominent family businesses population and researcher's location familiarity.

## 3.4 Sample Size

To determine an appropriate sample size from a finite population of 5,944, Cochran's formula (1977) was used. This formula is preferred over simpler formulas because it accounts for the desired confidence level, margin of error, and population proportion.

**Calculate sample size for infinite population**

$$n0= \frac{z2*p(1-p)}{e2}$$

Where:

- Z = Z-score for 95% confidence level = **1.96**
- p = estimated proportion of population with the characteristic = **0.5**
- e = margin of error = **0.10** (10%)

$$n0= \frac{z2*p(1-p)}{e2} = 1.96^2*0.5*0.5/0.1^{2 = 0.9604}/0.01 = 96.04 \approx 96$$

**Adjust for finite population (N = 5,944)**

$$n = \frac{n0}{1+\frac{n0-1}{N}} = \frac{96}{1+\frac{96-1}{5944}} = \frac{96}{1.015982} = 94.48 \approx 94$$

- **Final Sample Size: 94 participants**

A total of 94 questionnaires were distributed to family business owners, founders, and senior managers in Bole Sub-city, based on the sample size calculation using Cochran's formula. After data collection, 8 questionnaires were found to be incomplete or contained invalid responses (including one with an outlier value of 33 on a 1-5 Likert scale). As a result, a total of 86 surveys proved to be valid for evaluation, thus achieving a valid response rate of 91.5%.

## 3.5 Sampling Unit

In relation to the current study, one participant was chosen per business organization depending on his/her position as the main decision-maker in issues related to succession planning (e.g., founders, owner-managers, or CEOs). Where feasible and relevant, multiple respondents from the same business may be included to capture different perspectives (e.g., founder and next-generation member together). In cases where multiple respondents from the same business are included, the business-level data will be aggregated prior to PLS-SEM analysis to avoid clustering effects.

## 3.6 Sampling Procedure

A purposive sampling procedure is employed to select the participants for this study. Purposive sampling is widely used to intentionally select participants who possess specific knowledge, experience, or characteristics relevant to the research objectives (Patton, 2015). The purposive sampling procedure is consistent with PLS-SEM methodological requirements, which do not require probability sampling as long as the sample is representative of the target population and meets minimum size requirements for model complexity (Hair J. F., 2022).

## 3.7 Data Sources

This study utilized two types of data sources: primary data and secondary data.

### 3.7.1 Primary Data Sources

Primary data refers to original data collected directly from participants specifically for the purpose of this study. The primary data source is a structured questionnaire administered to the 94 selected participants of these, 86 were returned and found suitable for analysis, yielding a usable response rate of 91.5%

### 3.7.2 Secondary Data Sources

The secondary sources of information are international studies and research made on Family businesses succession plan throughout the years. These researches are universal to take as a reference point. The article by (HST Consulting plc, 2024), is a good glimpse for this topic in Ethiopia.

## 3.8 Data Collection Instrument

The main tool for gathering data is a structured questionnaire. One advantage of this is that it allows respondents to provide uniform answers suitable for analysis. The questionnaire will be developed based on validated instruments from prior studies using a 5-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree).

### 3.8.1 Pilot Testing

The questionnaire was pilot-tested on 9 family business owners (not included in the final sample) to assess: Clarity and comprehensibility, length and average completion time, internal consistency (reliability) and indicator loadings and construct validity.

## 3.9 Reliability and Validity

### 3.9.1 Assessment of Measurement Model

Following the pilot study (n=9, excluded from final analysis), the measurement model was be assessed using SmartPLS 4. Following the recommendations of (Hair J. F., 2022), the following criteria were evaluated:

**Internal Consistency:** Cronbach's Alpha and Composite Reliability (CR) were calculated for each reflective construct. The acceptable threshold for both is ≥ 0.70 for established research and ≥ 0.60 for exploratory research.

**Convergent Validity:** Average Variance Extracted (AVE) was assessed for each reflective construct. The acceptable threshold is AVE ≥ 0.50 (Fornell, 1981).

**Indicator Reliability***:* Outer loadings of indicators on their respective constructs were examined. The preferred threshold is ≥ 0.708; indicators with loadings between 0.40 and 0.708 may be retained if their removal does not improve CR or AVE and if the indicator contributes to content validity (Hair J. F., 2019).

**Discriminant Validity:** The HTMT (Heterotrait-Monotrait) ratio was assessed; with values below 0.85 (conservative) or 0.90 (liberal) indicating established discriminant validity (Henseler, 2015).

**For Formative Constructs:** The following were assessed: (a) collinearity using Variance Inflation Factor (VIF) with values below 5.0 (strictly below 3.3) indicating no problematic collinearity; (b) significance of outer weights using bootstrapping ($p < 0.05$); and (c) outer loadings (> 0.50) to ensure absolute contribution of each indicator (Hair J. F., 2022).

### 3.9.2 Validity

The questionnaire design was closely adapted from validated empirical studies on family business succession and consultation with the research advisor.

## 3.10 Data Analysis

Data analysis was conducted exclusively using SmartPLS 4 (Ringle, 2022), which was used for descriptive statistics, data screening, measurement model assessment, structural model assessment, and hypothesis testing. The analysis follows the two-stage analytical procedure recommended by (Hair J. F., 2019), for PLS-SEM studies.

### 3.10.1 Descriptive Analysis

Descriptive statistics (frequencies, percentages, means, and standard deviations) was generated using SmartPLS 4 to summarize the sample characteristics, including industry sector, generation in control, gender, position, business age, and business size.

### 3.10.2 Assessment of Measurement Model

The measurement model was evaluated using SmartPLS 4 to ensure reliability and validity. For reflective constructs (leadership continuity, operational continuity, organizational sustainability), indicator loadings (≥ 0.708 preferred), Cronbach's Alpha (≥ 0.70), Composite Reliability (≥ 0.70), Average Variance Extracted (≥ 0.50), and discriminant validity (HTMT < 0.85) was assessed. For formative constructs (the five succession planning practices), Variance Inflation Factor (< 5.0), significance of outer weights ($p < 0.05$), and outer loadings (> 0.50) was evaluated.

### 3.10.3 Assessment of Structural Model

Following confirmation of an acceptable measurement model, the structural model was assessed using bootstrapping with 5,000 subsamples. Path coefficients (β), t-values, p-values, and bias-corrected confidence intervals will be generated to test the hypotheses. The coefficient of determination ($R^2$), effect sizes ($f^2$), and predictive relevance ($Q^2$) will also be evaluated.

### 3.10.4 Path Model Specification

Table 3.1 Path Model Specification

| **Path** | **Independent Variable** | **Dependent Variable** |
|---|---|---|
| 1 | Formal Succession Planning | Leadership Continuity |
| 2 | Successor Development | Operational Continuity |

| | | |
|---|---|---|
| 3 | Family Governance Structures | Organizational Sustainability |
| 4 | Stakeholder Communication | Leadership Continuity |
| 5 | Successor Readiness | Leadership Continuity |
| 6 | Successor Readiness | Operational Continuity |
| 7 | Successor Readiness | Organizational Sustainability |

### 3.10.5 Hypothesis Testing Decision Rule

Table 3.2 Hypothesis Testing Decision Rules

| Condition | Decision |
|---|---|
| $\beta > 0$ AND $p < 0.05$ AND 95% CI does NOT include zero | Reject $H_0$; Support $H_1$ |
| Otherwise | Fail to reject $H_0$ |

Note: β = Path coefficient; p = p-value; CI = Bootstrap confidence interval

## 3.11. Ethical Consideration

This study is ethically sound since all participants were asked for their informed permission. Participants were made aware that they have the right to withdraw at any time without any consequences. Anonymity and confidentiality was guaranteed. Confidential information was handled with care, and data and information was retained securely. All of this was done to guarantee that ethics are followed during the research process.

# CHAPTER FOUR

# 4. DATA ANALYSIS AND DISCUSSION

## 4.1. Introduction

This section includes the analysis and interpretation of data collected from 86 family-owned businesses operating in Bole Sub-City, Addis Ababa, Ethiopia. The aim of the study was to assess the role of succession planning practices on business continuity in Ethiopian family-owned businesses. To achieve this total of 94 questionnaires were distributed and collected. After data cleaning, filtering for missing values, and eliminating incomplete responses only 86 questionnaires were deemed viable and retained for final statistical estimation, representing an effective response rate of 91.5%.

The chapter is organized into four main sections: descriptive statistics of respondents and businesses, assessment of the measurement model (including reliability and validity), assessment of the structural model (including hypothesis testing), and summary of findings.

## 4.2 Descriptive Statistics of Respondents and Businesses

Table 4.1 Demographic Characteristics of Respondents (N=86)

| **Variables** | **Category** | **Frequency** | **Percentage (%)** |
|---|---|---|---|
| **Gender** | Male | 63 | 73% |
| | Female | 23 | 27% |
| **Age** | 18-25 years | - | - |
| | 26-35 years | 5 | 6% |
| | 36-45 years | 27 | 31% |
| | 46-55 years | 36 | 42% |
| | 56-64 years | 14 | 16% |
| | 65 years and above | 4 | 5% |
| **Educational Level** | <High School | 9 | 10% |
| | High School Graduate | 9 | 10% |
| | Certificate | 11 | 13% |
| | Diploma | 5 | 6% |
| | Bachelor | 42 | 49% |
| | Masters | 10 | 12% |

| | | | |
|---|---|---|---|
| **Experience** | 1-5 years | - | - |
| | 6-10 years | 3 | 3% |
| | 11-20 years | 31 | 36% |
| | 21-25 years | 34 | 40% |
| | 26 years and above | 18 | 21% |
| **Industry** | Manufacturing | 24 | 28% |
| | Trade | 31 | 36% |
| | Service | 20 | 23% |
| | Construction | 7 | 8% |
| | Agriculture | - | - |
| | Other | 4 | 5% |
| **Position** | Founder/Owner | 45 | 52% |
| | Family Executive | 16 | 19% |
| | Successor | 22 | 26% |
| | Non-Family Manager | 3 | 3% |
| **Business age** | 5 – 10 years | - | - |
| | 11 – 20 years | 40 | 47% |
| | 21 – 30 years | 16 | 19% |
| | Above 30 years | 30 | 35% |
| **Business size** | Less than 10 | - | - |
| | 10 – 49 | 27 | 31% |
| | 50 – 99 | 20 | 23% |
| | 100 and above | 39 | 45% |
| **Generation** | First | 61 | 71% |
| | Second | 21 | 24% |
| | Third | 4 | 5% |
| | Beyond | - | - |

As shown in Table 4.1 the majority of respondents were male (73%) with females representing 27% of the sample. The age distribution indicates that majority of respondents (42%) were aged 46-55 years followed by 36-45 years (31%) and Only 4.7% of respondents were aged 65 years or above. When it comes to Education majority of respondents held a Bachelor's degree (49%) followed by Certificate holders (13%). The majority of respondents had substantial business experience, with 40% having 21-25 years of experience and 36% having 11-20 years of experience.

In terms of the business characteristics the trade sector dominated the sample (36%), followed by manufacturing (28%) and service (23%). Founders and owners constituted the largest group (52%), followed by successors (26%) and family executives (19%).The majority of businesses (47%) had been operating for 11-20 years, followed by those operating for more than 30 years (35%). When it comes to business size majority of businesses (45%) employed 100 or more people, followed by those employing 10-49 people (31%). 71% of businesses were still in first-generation control, meaning the founder is still actively leading the business. Only 24% had transitioned to second-generation leadership, and just 5% to third-generation.

## 4.3 Assessment of the Measurement Model

The measurement model was assessed to ensure the reliability and validity of the constructs before testing the structural relationships between succession planning practices and business continuity. Indicator reliability, internal consistency reliability, convergent validity, and discriminant validity are evaluated.

### 4.3.1 Indicator Reliability (Outer Loadings)

Indicator reliability was assessed by examining the outer loadings of each indicator on its respective construct. According to (Hair J. F., 2019), indicator loadings should exceed 0.708, indicating that the indicator explains more than 50% of the variance in the construct.

Table 4.2: Indicator Outer Loadings

| Indicator | Outer loadings |
|---|---|
| FGS1 <- Family Governance Structure | 0.986 |
| FGS2 <- Family Governance Structure | 0.921 |
| FGS3 <- Family Governance Structure | 0.967 |
| FGS4 <- Family Governance Structure | 0.967 |
| FSP1 <- Formal Succession Planning | 0.951 |
| FSP2 <- Formal Succession Planning | 0.885 |
| FSP3 <- Formal Succession Planning | 0.906 |
| FSP4 <- Formal Succession Planning | 0.988 |
| LC1 <- Leadership Continuity | 0.838 |

| | |
|---|---|
| LC2 <- Leadership Continuity | 0.901 |
| LC3 <- Leadership Continuity | 0.909 |
| LC4 <- Leadership Continuity | 0.862 |
| OC1 <- Operational Continuity | 0.885 |
| OC2 <- Operational Continuity | 0.974 |
| OC3 <- Operational Continuity | 0.977 |
| OC4 <- Operational Continuity | 0.887 |
| OS1 <- Organizational Sustainability | 0.913 |
| OS2 <- Organizational Sustainability | 0.885 |
| OS3 <- Organizational Sustainability | 0.818 |
| OS4 <- Organizational Sustainability | 0.903 |
| SC1 <- Stakeholder Communication | 0.983 |
| SC2 <- Stakeholder Communication | 0.983 |
| SC3 <- Stakeholder Communication | 0.991 |
| SC4 <- Stakeholder Communication | 0.899 |
| SD1 <- Successor Development | 0.949 |
| SD2 <- Successor Development | 0.978 |
| SD3 <- Successor Development | 0.982 |
| SD4 <- Successor Development | 0.965 |
| SR1 <- Successor Readiness | 0.975 |
| SR2 <- Successor Readiness | 0.981 |
| SR3 <- Successor Readiness | 0.948 |
| SR4 <- Successor Readiness | 0.984 |

As indicated in Table 4.2, all indicator loadings exceeded the recommended threshold of 0.708, with the vast majority exceeding 0.80 and many exceeding 0.90. These results demonstrate that all indicators reliably measure their respective constructs, explaining more than 50% of the variance in each case.

### 4.3.2 Internal Consistency Reliability and Convergent Validity

Reliability tests were carried out using Cronbach's Alpha and Composite Reliability, whereby internal consistency is considered satisfactory for values above 0.70. The tests of convergent validity were carried out using Average Variance Extracted (AVE).

**Table 4.3: Internal Consistency Reliability and Convergent Validity**

| Construct | Cronbach's alpha | Composite reliability (rho_a) | Composite reliability (rho_c) | Average variance extracted (AVE) |
|---|---|---|---|---|
| Family Governance Structure | 0.972 | 0.975 | 0.979 | 0.923 |
| Formal Succession Planning | 0.95 | 0.953 | 0.964 | 0.871 |
| Leadership Continuity | 0.902 | 0.91 | 0.931 | 0.771 |
| Operational Continuity | 0.95 | 0.969 | 0.964 | 0.869 |
| Organizational Sustainability | 0.903 | 0.905 | 0.932 | 0.775 |
| Stakeholder Communication | 0.974 | 0.978 | 0.982 | 0.93 |
| Successor Development | 0.978 | 0.988 | 0.984 | 0.938 |
| Successor Readiness | 0.981 | 0.983 | 0.986 | 0.945 |

Table 4.3 shows that the values of Cronbach's Alpha were between 0.902 (Leadership Continuity) and 0.981 (Successor Readiness) – in all cases, considerably greater than the benchmark value of 0.70. The values of Composite Reliability (rho_c) were between 0.931 and 0.986 – once again, all exceeding the benchmark of 0.70. The above data clearly show that the measurement model is highly reliable internally. This can be seen in the very high scores of Successor Readiness (CR = 0.986) and Stakeholder Communication (CR = 0.982), which shows that the items used to measure those constructs are very consistent. The values of AVE varied from 0.771 (Leadership Continuity) to 0.945 (Successor Readiness), which are higher than the minimum threshold of 0.50.

### 4.3.3 Discriminant Validity

Discriminant validity is meant to demonstrate that constructs are distinguishable from each other. Discriminant validity was tested using the Heterotrait-Monotrait (HTMT) ratio. The HTMT ratio value has to be below 0.85 for strong discriminant validity, or below 0.90 for loose acceptance criteria.

Table 4.4: Heterotrait-Monotrait (HTMT) Ratios

| | FGS | FSP | LC | OC | OS | SC | SD | SR |
|---|---|---|---|---|---|---|---|---|
| Family Governance Structure | | | | | | | | |
| Formal Succession Planning | 0.589 | | | | | | | |
| Leadership Continuity | 0.787 | 0.876 | | | | | | |
| Operational Continuity | 0.659 | 0.845 | 1.015 | | | | | |
| Organizational Sustainability | 0.864 | 0.907 | 1.004 | 0.97 | | | | |
| Stakeholder Communication | 0.962 | 0.586 | 0.831 | 0.767 | 0.919 | | | |
| Successor Development | 0.907 | 0.701 | 0.876 | 0.811 | 0.918 | 0.948 | | |
| Successor Readiness | 0.977 | 0.679 | 0.857 | 0.762 | 0.944 | 0.994 | 0.947 | |

As evident in Table 4.4 above, some of the HTMT results are even above the threshold of 0.9, especially among the three business continuity dimensions (LC, OC, and OS), and between some succession planning activities (SC, SR, and FGS). The high HTMT values imply that there exists high correlation between the three business continuity dimensions in the context of Ethiopian family business. It is also not surprising in the case of family business, especially for Ethiopia, since “readiness” and “communication” often come together and “leadership” and “operations” are closely correlated.

Since the effective leadership transition leads to operation stability, and then long-term survival is guaranteed in family business. It is likely that the respondents viewed the three dimensions as interrelated parts of business continuity. Since family business leaders view leadership transition, stable operation, and long-term sustainability as one whole phenomenon when they see a

successful succession process. The business culture is also another reason since in the relationship-oriented business culture in Ethiopia, stakeholders' communication and successors' readiness are intrinsically connected.

## 4.4 Assessment of the Structural Model

Following the validation of the measurement model reliability and validity, the structural model was then examined to ascertain the relationship between succession planning practices and business continuity results**.**

### 4.4.1 Collinearity Assessment

Before evaluating the structural paths, collinearity among predictor constructs was assessed using the Variance Inflation Factor (VIF). All VIF values were below the threshold of 5.0 (and below the more conservative threshold of 3.3), indicating that collinearity is not a concern for the structural model estimation.

### 4.4.2 Coefficient of Determination ($R^2$ Values)

The structural model demonstrates strong explanatory power. The independent variables (succession planning practices) collectively explain 82.4% of the variance in Leadership Continuity. In addition to that the model explains 80.9% of the variance in Organizational Sustainability and 65.7% of the variance in Operational Continuity. These high $R^2$ values indicate that succession planning practices are strong predictors of business continuity outcomes in Ethiopian family-owned businesses.

Table 4.5: Coefficient of Determination ($R^2$ Values)

| Construct | R-square | Explanatory Power |
|---|---|---|
| Leadership Continuity | 0.824 | Substantial |
| Operational Continuity | 0.657 | Moderate |
| Organizational Sustainability | 0.809 | Substantial |

### 4.4.3 Effect Sizes ($f^2$)

The $f^2$ sizes were examined to determine the practical contribution of each independent construct to the $R^2$ values of the dependent constructs. The guidelines define values of 0.02, 0.15, and 0.35 as small, medium, and large effects, respectively. As shown in table 4.6 FSP → LC and SR → OS demonstrate large effect sizes. This indicates that having a formal written succession planning is a stronger predictor of leadership continuity and the readiness of the successor strongly predicts the long-term survival and prosperity of the family business. FGS → OS and SC → LC show a small effect while SD → OC and SR → LC show negligible effect. This suggests that successor readiness may operate indirectly through formal planning mechanisms.

Table 4.6 Effect Size ($f^2$) Summary

| Path | $f^2$ | Effect Size |
|---|---|---|
| FGS → OS | 0.089 | Small |
| FSP → LC | 0.754 | Large |
| SC → LC | 0.104 | Small |
| SD → OC | 0.223 | Medium |
| SR → LC | 0.006 | Negligible |
| SR → OC | 0.003 | Negligible |
| SR → OS | 0.789 | Large |

## 4.5 Hypothesis Testing (Path Coefficients)

The structural model was evaluated using a bootstrapping procedure with 5,000 resamples to determine the significance of the hypothesized relationships. The results for the direct paths are summarized in Table 4.7.

Table 4.7 Results of Direct Hypothesis Testing

| Hypothesis | Path Relationship | Original Sample (O), β | T-Statistics | P-Values | Decision |
|---|---|---|---|---|---|
| H1a | FSP → LC | 0.542 | 10.415 | 0 | Supported |
| H1b | SD → OC | 0.735 | 3.804 | 0 | Supported |
| H1c | FGS → OS | -0.439 | 3.418 | 0.001 | Rejected (Negative) |
| H1d | SC → LC | 0.665 | 3.024 | 0.003 | Supported |
| H1e | SR → LC | -0.176 | 0.717 | 0.473 | Not Supported |
| H1f | SR → OC | 0.081 | 0.387 | 0.699 | Not Supported |
| H1g | SR → OS | 1.309 | 10.093 | 0 | Supported |

The hypothesis testing results from the structural model, as shown in table 4.8 indicates that most direct paths are statistically significant at $p < 0.05$ level but for the relationship between SR and LC ($p=0.473$ $\beta=-0.176$ $t=0.717$) and SR and OC ($p=0.699$ $\beta=0.081$ $t=0.387$) are not significant. In addition to that FGS and OS( $p=0.001$, $\beta= -0.439$ t-3.418) showed a significant negative relationship.

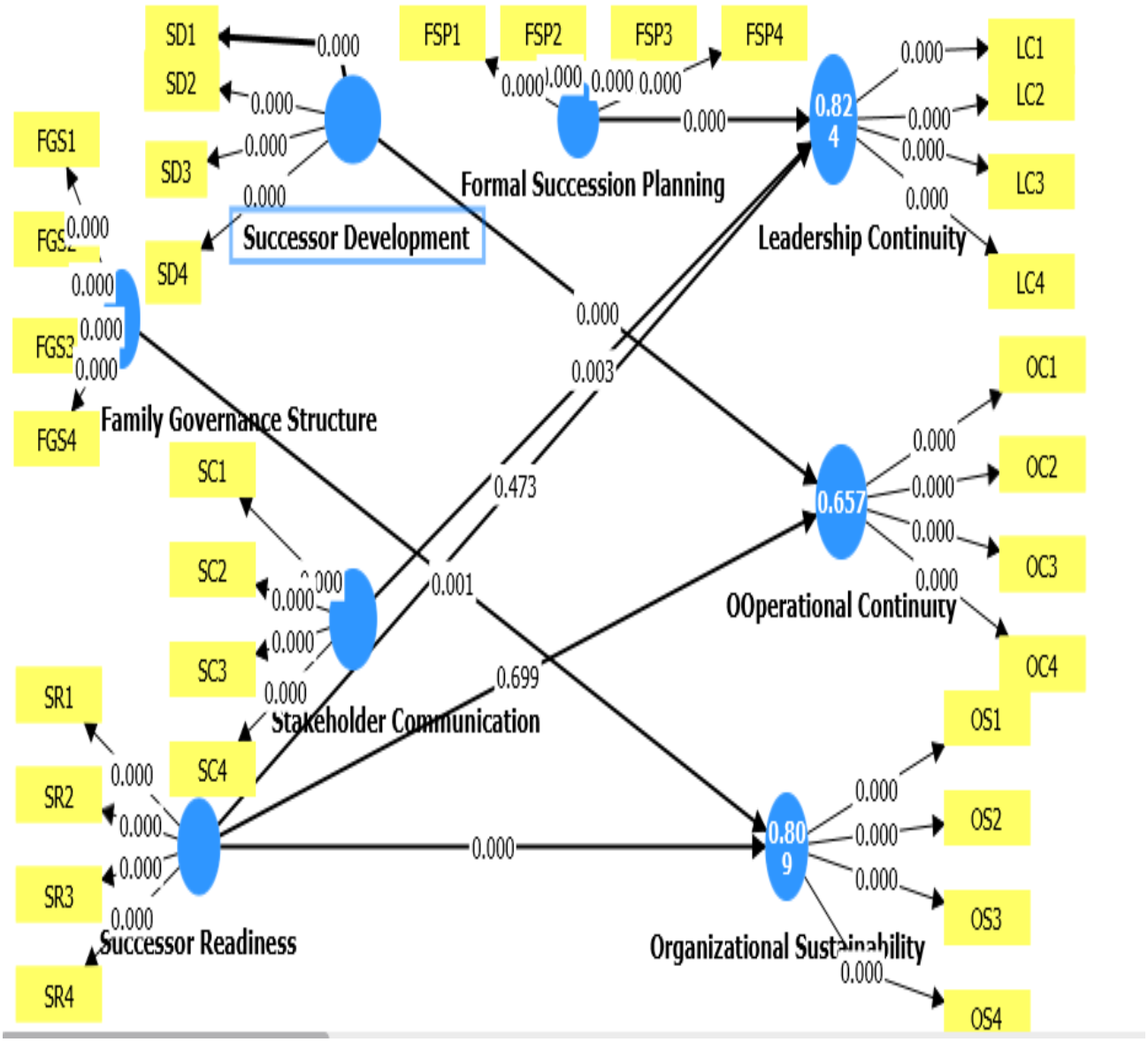



Figure 4.1 Structural models with Path Coefficients and $R^2$ Values

# CHAPTER FIVE

# 5. SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

## 5.1 Introduction

This chapter includes a summary of the study's key findings, draws conclusions based on the empirical evidence, and offers practical recommendations for Ethiopian family-owned businesses, policymakers, and future researchers. The study aimed to assess the role of succession planning practices in ensuring business continuity in Ethiopian family-owned businesses operating in Bole Sub-city, Addis Ababa.

## 5.2 Summary of Key Findings

The study shows that from family businesses in Bole Sub-city majority of them are first-generation (71%), with only 24% having transitioned to second-generation leadership and a mere 4.7% reaching the third generation. No businesses in the sample had reached the fourth generation. This distribution is highly consistent with global statistics showing that approximately 70% of family businesses fail to survive to the second generation (Magaci, 2020).

It was indicated that the majority of businesses have been operating for 11-20 years (47%) or over 30 years (35%), indicating significant longevity but also the pressing need for succession planning as founders aged from 46-55 years are 42% and 16% were aged 56-64 years. The study also showed that businesses in the sample are substantial enterprises with 45% employing 100 or more people, implying the economic importance of successful succession for employment and economic activity in Addis Ababa.

Majority of respondents were male (73.3%) and highly educated, with 49% holding Bachelor degree and 12% holding master's degrees. This high level of educational suggests that lack of education is not the primary barrier to succession planning rather psychological, cultural, and structural barriers may be more significant.

In the measurement model, excellent reliability and convergent validity were established. Indicator loadings were above 0.80, Cronbach's Alpha was 0.902-0.981, Composite Reliability was 0.931-0.986, and Average Variance Extracted was 0.771-0.945 – all surpassing recommended levels (Hair et al., 2019). However, problems related to discriminant validity were

identified, namely high HTMT scores above 0.90 for various constructs, indicating a strong dependency among the dimensions of business continuity.

In terms of the structural model, significant amounts of variance were explained in terms of business continuity results. Thus, Leadership Continuity variance was 82.4%, Operational Continuity variance was 65.7%, and Organizational Sustainability variance was 80.9%. In terms of hypothesis testing, Formal Succession Planning positively predicted Leadership Continuity ($\beta = 0.542$, $p < 0.001$), Successor Development positively predicted Operational Continuity ($\beta = 0.735$, $p < 0.001$), Stakeholder Communication positively predicted Leadership Continuity ($\beta = 0.665$, $p = 0.003$), and Successor Readiness positively predicted Organizational Sustainability ($\beta = 1.309$, $p < 0.001$). Notably, Successor Readiness did not positively predict Leadership Continuity and Operational Continuity, implying that such effects could be mediated through formal planning tools. Moreover, Family Governance Structures unexpectedly negatively correlated with Organizational Sustainability ($\beta = -0.439$, $p =0.001$).

## 5.3 Conclusions

In essence, the primary purpose of conducting this study was to determine the role of succession planning practices in ensuring business continuity of family-owned firms in Ethiopia. The following conclusions are drawn from the study.

The paper makes another observation regarding the problem of succession among family businesses in Ethiopia. Most businesses are found in first generation management, with about 71 percent of companies being managed by the founders. Also, almost half of business leaders (42 percent) fall into the age bracket 46 to 55. Consequently, most of such businesses will experience high risks of failing when founders retire. This is evident from the significant drop in the percentage of businesses in second and third generations (from 71, 24 to 5 percent).

In the second place, the research clearly identifies that the continuity of businesses is not only about the successor’s identity but rather his readiness. It is highly important that there be mentoring and training of the successor before the handover of responsibility. Moreover, it is necessary to make stakeholders aware of the succession plan through proactive communication.

Third, successor readiness alone cannot ensure a successful transition process. Although the readiness of the successor is significantly correlated with organizational sustainability, it is not significantly related to leadership sustainability or operation sustainability. This somewhat paradoxical finding makes it necessary to include formal plans as an important component alongside the existence of a qualified and willing successor.

Fourth, culturally sensitive governance practices need to be put in place. The inverse relationship between family governance and organizational sustainability makes it evident that implementing governance processes into organizations that have not matured and are operating under family structures is likely to backfire.

## 5.4 Recommendations

Family business owners and founders should make formal plans that involve writing transition plans, identifying competent individuals as successors, and making contingency plans. Make investment towards training potential successors via mentoring programs, job rotation, and training in decision making. Let successors meet all stakeholders before transitioning. Counter the psychological issues involved in retiring by ensuring that post-retirement roles exist and getting peer support from founders who have managed to transition successfully. And Start with having family meetings on business matters before moving to family councils. Governance systems should be for resolving issues rather than creating more.

The Chambers of Commerce and development organizations in Addis Ababa need to conduct training programs related to succession planning, dealing with its legal, financial, and psychological elements. Moreover, a mentoring program needs to be developed, whereby experienced second or third generation leaders will mentor first generation leaders of Ethiopian family businesses.

## 5.5 Directions for Future Research

Future researchers will require replication studies conducted in several parts of Ethiopia for generalization purposes. Future longitudinal research that traces businesses over five to ten years is necessary for causal link establishment. The concept of business continuity needs to be defined as a higher-order construct to address issues of discriminant validity. Mixed method research involving qualitative interviews will assist in understanding how mechanisms drive statistical

associations. Mediating effect of formal succession planning needs to be tested to find out whether or not it mediates the association between successor readiness and leadership continuity. Retrospective case studies of unsuccessful business ventures will mitigate the issue of selection bias.

# REFERENCE


Abebe, M. T. (2025). mpact of Leadership Transition on SME Performance in Addis Ababa. *Ethiopian Journal of Economics*.

Akinbade, S. O. (2023). Succession Planning and Sustainability of Family Businesses in Sub-Saharan Africa. *Journal of African Business Studies*.

Arduino, F. R. (2025). Management and governance of family business. *In Governance and Sustainability of Family Business*, 37-63.

Astrachan, J. H. (2003). Family Businesses' Contribution to the U.S. Economy: A Closer Look. *Family Business Review, 16*(3), 211-219.

Basco, R. (2013, march). The family's effect on family firm performance: A model testing the demographic and essence approaches. *Journal o Family Business Strategy, 4(1)*.

Bjuggren, P. &. (2001). Strategic decision making in intergenerational successions of small- and medium-sized family-owned businesses. *Family Business Review, 14*(1), 11-23.

Brockhouse, R. H. (2004). Family business succession: Suggestions for future research. *Family Business Review, 17*(2), 165-77.

Cabrera-Suárez, G.-A. P.-P. (2018). A Dynamic Network Model of the Successor's Knowledge Construction From the Resource- and Knowledge-Based View of the Family Firm. *Family Business Review, 31*(2), 178 -197.

Carroll, G. R. (1984). Dynamics of publisher succession in newspaper organizations. *Administrative Science Quarterly, 29*(1), 93-13.

Christian Koropp, D. G. (2013). Succession financing in family firms. *Small Business Economics, 41*(2), 315-334.

Dar L. Worrell, W. N. (1987). The effect of CEO succession on stockholder wealth in large firms following the death of the predecessor. *Journal of Management, 13*, 509-515.

De Massis, A. C. (2008). Factors preventing intra-family succession. *Family Business Review, 21*(2), 183-199.

Dzvairo, A. T. (2025). A framework for facilitating the success of family business intergenerational leadership succession planning in Sub-Saharan Africa. *ournal of Entrepreneurship and Innovation in Emerging Economies*.

Ernesto J. Poza, M. S. (2013). *Family Business* (4th ed.). Mason OH: Cengage Learning.

Febrizal Rahmana. (n.d.). *BINUS University business school*. Retrieved from google.com: https://bbs.binus.ac.id/business-creation/2018/06/comparison-family-business-theories-system-theory-agency-theory-resources-based-theory-and-stewardship-theory-part-1/

Felix O., C. H. (2025). Succession without structure: A multilevel study of family business transition in Sub-Saharan Africa. *Journal of Family Business Management*.

Fornell, C. &. (1981). Evaluating structural equation models with unobservable variables and measurement error. *Journal of Marketing Research, 18*(1), 39-50.

Garman, A. N. (2004). Succession planning. *Consulting Psychology Journal: Practice and Research, 56*(2), 119-128.

Getz, D. &. (2004). Identifying Industry-Specific Barriers to Inheritance in Small Family Businesses. *Family Business Review, 17*(3), 259-276.

Giambatista, R. C. (2005). Nothing succeeds like succession: A critical review of leader succession literature since 1994. *The Leadership Quarterly, 16*(6), 963-991.

Giarmarco, J. (2012). The Three Levels of Family Business Succession Planning. *Journal of Financial Service Professionals, 66*(2), 59-69.

Godfred Etse Klugah, V. K. (2025). The mediating role of succession issues in succession planning, family influence and successor attributes on SME performance in emerging economies. *Cogent Business & Management, 12*(1).

Gomba M., &. T. (2016). Succession Planning in Black-Owned Family Businesses: A South African Perspective. *International Journal of Business Administration, 7*(5), 9-12.

Gomba, M. (2014). Understanding the factors that influence the management of succession process in black family-owned businesses. Master's thesis.University of Pretoria.

Greg Guest, A. E. (2006). How Many Interviews Are Enough?: An Experiment with Data Saturation and Variability. *Field Methods, 18*(1), 59-82.

Grusky, O. (1963). Managerial succession and organizational effectiveness. *American Journal of Sociology, 69*(1), 21-31.

Habila Bako Dekom, D. E. (2024, October). Effect of Succession Planning on the Sustainability of Family Owned Businesses Evidence From. *Effect of Succession Planning on the Sustainability of Family Owned Businesses Evidence From, 1*(2), 23-36.

Hair, J. F. (2019). When to use and how to report the results of PLS-SEM. *European Business Review, 31*(1), 2-24.

Hair, J. F. (2022). *A Primer on Partial Least Squares Structural Equation Modeling (PLS-SEM)* (3rd ed.). Sage Publications.

Hawkey, J. (2002). Exit strategy planning: growing your business for sale or succession. Gower Publishing Limited.

Henseler, J. R. (2015). A new criterion for assessing discriminant validity in variance-based structural equation modeling. *Journal of the Academy of Marketing Science, 43*(1), 115-135.

Hills, A. (2009). Succession planning or smart talent management. *Industrial and Commercial Training, 41*(1), 3-8.

HST Consulting plc. (2024). *Ethiopian Family Business Survey Report 2024.*

Jaffe, H. &. (2004). The role of family in family firms. *Journal of Economic Perspectives, 20*, 73-96.

James J. Chrisman, J. H.-M. (2017, December 26). Governance Mechanisms and Family Firms. *Entrepreneurship Theory and Practice, 42*(2), 171-186.

Jan Folke Siebels, D. z.-A. (2012). A review of theory in family business research: the implications for corporate governance. *International Journal of Management Reviews , 14*(3), 280-304.

Jess Chua, J. C. (2004, April). Succession and Non-Succession Concerns of Family Firms and Agency Relationship with Non-Family Managers. *Family Business Review , 16*(2), 89-107.

Jess H. Chua, J. J. (1999). Defining the family business by behavior. Entrepreneurship Theory and Practice. 19-39.

Juan M. Gómez, Y. E. (2025). Multi-level determinants of satisfaction in family business succession: The moderating role of cultural contexts. *Journal of Business Research, 197*.

Karaevli, A. &. (2003). Growing leaders for turbulent times: is succession planning up to the challenge. *Organisational Dynamics, 32*(1), 62-79.

Kefalew, A. (2024). Founder's Syndrome and Succession Readiness in Emerging Markets. *Founder's Syndrome and Succession Readiness in Emerging Markets*.

Khurana. (2002). Market Triads: A theoretical and empirical analysis of market intermediation. *Journal for the Theory of Social Behaviour, 32*(2), 239-261.

Klein, S. (2000). Family Businesses in Germany: Significance and Structure. *Family Business Review, 13*(3), 157-181.

Kristen Madison, D. T. (2016, July 15). Viewing family firm behavior and governance through the lens of agency and stewardship theories. *Family Business Review, 29*(1), 65-93.

Long, R. (2024, Setember 18). What Is Business Continuity? A Practical Guide. MHA Consulting.

Lowan, V. &. (2016, August). The impact of succession planning for business survival: A case of Kwalita Business consultants, Johannesburg (South Africa). *Kuwait chapter of Arabian Journal of Business and Management Review, 5*(12).

Magaci, C. (2020). The effect of succession planning on the survival of family-owned manufacturing firms in Dar-es-salam region. *A thesis submitted in fulfillment of the requirements or the degree of doctor of philosophy department of Marketing and Entrepreneurship of the open university of Tanzania*.

Maryam Ahmadi Zahrani, S. N. (2014, July). Impact of Family Business Characteristics on Succession. *Iranian Journal of Management Studies (IJMS), 7*(2), 243-257.

Matthew B. Miles, A. M. (2014). *Qualitative data analysis: a methods sourcebook* (3rd ed.). SAGE Publications, Inc.

Mesfin Lemma, B. M. (2024, February). PROSPECTS AND CHALLENGES OF PROMINENT FAMILY-OWNED BUSINESSES: THE CASE OF TWO SUB CITIES IN ADDIS ABABA. *International Journal in Management and Social Science , 12*(2).

Miller, D. L.-M. (2021). Family Control and Professional Management: A Conflict of Interest. *Journal of Management Studies, 58*(3), 670-695.

Montemayor-Gonzalez, F. (2016). SUCCESSION PLANNING OF SMALL FAMILY, OWNED BUSINESSES. *A Dissertation Presented in Partial Fulfillment of the Requirements for the Degree Doctor of Business Administration University of Phoenix*.

Nadine Kammerlander, D. H. (2018). Introductory comment on the succession process from a resource- and knowledge-based view of the family firm. *Family Business Review, 31*(2), 176-177.

Nel, P. S. (2017). *Human Resources Management* (10th ed.). Cape Town: Oxford University Press Southern Africa (Pty) Ltd.

Nkam Micheal Cho, S. O. (2017). Factors Affecting the Sustainability of Family Businesses in Cameroon: An Empirical Study in Northwest and Southwest Regions of Cameroon. *Journal of Entrepreneurship: Research & Practice*, 2-19.

Nsehe, M. (2014, March 4). *Forbes.* Retrieved from The African Billionaires 2014: https://www.forbes.com/sites/mfonobongnsehe/2014/03/04/the-african-billionaires-2014/

Ogbechie, R. a. (2015). An Appraisal of Succession Planning in Family-Owned Businesses in Lagos State, Nigeria. *European Journal of Business and Management, 7*, 1-6.

Ogundele, I. A.-O. (2012, April). Entrepreneurial succession problems in Nigeria family businesses: A Threat to Sustainability. *European Scientific Journal, 8*(7).

Patton, M. Q. (2015). *Qualitative Research & Evaluation Methods: Integrating Theory and Practice* (4th ed.). SAGE Publication .

Pitcher, C. (2016). *Succession planning: A practical guide for family and private businesses.* London: Routledge.

Reif, T. B. (2025). An update on family firm succession: A systematic literature review and future research directions. *Journal of Family Business Strategy, 16*(3).

RF, D. (2016). Scale development: theory and applications. Sage Publications.

Rhodes, D. W. (1988). Succession planning—overweight and underperforming. *Journal of Business Strategy, 9*(6), 62-64.

Ringle, C. M.-M. (2022). SmartPLS 4. Oststeinbek: SmartPLS GmbH.

Rothwell, W. J. (2015). Career planning and succession management: developing your organization's talent--for today and tomorrow. Praeger.

Saan, R. E.-K. (2018). Succession Planning and Continuity of Family-Owned Business: Perception of Owners in the WA Municipality, Ghana.

Saunders, M. L. (2012). *Research Methods for Business Students.* (6th, Ed.) Harlow: Pearson.

Sharma, P. C. (2003). Succession planning as planned behavior:Some empirical results. *Family Business Review , 16*(1), 1-15.

Singhry, H. B. (2010, December ). An examination of management succession on the sustainability of family businesses in Nigeria: Problems and alternative solutions, 2nd Annual International Conference on Business and Public Policy.

Stephen E, C. (2010). *Handbook of Human Resource Management in Government.* (3rd, Ed.) San Francisco, CA: John Wiley & Sons.

Tadesse, B. B. (2023). Succession Planning Practices and Business Continuity in Addis Ababa. *Journal of Business and Economic Development, 8*(1), 45-60.

Taruvinga, P. (2011). The influence of societal culture on management succession and enterprise sustainability in family-owned businesses: A comparative study between South Africa and the United States of America (Doctoral dissertation). University of Fort Hare, South Africa.

Theresa Arnold, S. R. (2024, June 26). Social Systems Theory and Family Business: A Perspective Article. *Systemic Practice and Action Research*. Springer Science+Business Media, LLC,.

Tomasz Ingram, G. G. (2018, March). Organizational resilience of family business: case study. *EKONOMIA I PRAWO. ECONOMICS AND LAW, 17*.

Tucker, W. a. (2004). Succession in Family Businesses: Exploring the Effects of Demographic Factors on Offspring Intentions to Join and Take Over the Business. *Journal of Small Business Management, 37*(3), 43-61.

Venter, E. B. (2005). The influence of successor-related factors on the succession process in small and medium-sized family businesses. *Family Business Review,, 18*(4), 283-303.

Venter, W. P. (2004). The contribution of familiness to the performance of family businesses. *Acta Commercii, 4*(1), 14-28.

Vikram Bhalla, N. K. (2015, March). *Succeeding with Succession Planning in Family Businesses.*

Wang, Y. (2017). Influence of new generation succession on team performance: evidencefrom china. *Social Behavior and Personality: An International Journal, 45*(2), 281-298.

Ward, J. L. (2020). Keeping the family business healthy: How to plan for continuing growth, profitability, and family leadership. London: Palgrave Macmillan.

Wasserman, N. (2003). Founder-CEO Succession and the Paradox of Entrepreneurial Success. *Organization Science, 14*(3), 149-172.

Watts, Y. (2004). Family ownership and productivity The role of owner management. *Journal of Corporate Finance, 11*, 107-127.

Wolfred, T. (2018). Succession Planning for Non-profits. *Building Leaderful Organisations, 6*.

Woodfield, P. J. (2017). How can family winegrowing businesses be sustained across generations. *International Journal of Wine Business Research, 29*(2), 122-139.

Zahra, S. &. (2004). Family business research. *A strategic reflection., 17*, 331-346.

# APPENDIX:




COLLEGE OF BUSINESS AND ECONOMICS

MASTERS OF BUSINESS ADMINISTRATION (MBA) PROGRAM

Survey Questionnaire

This questionnaire is designed by the final year post graduate student of Addis Ababa University, entitled: "The Role of Succession Planning Practices in Ensuring Business Continuity in Ethiopian Family-Owned Businesses: In The Case of Bole Sub City, Addis Ababa, Ethiopia " for the partial fulfillment of the course MBA thesis.

The information provided by you is used for academic purpose and you will not be held responsible for anything arising thereof.

Your prompt response to fill up this questionnaire is highly appreciated. Thank you in advance for your cooperation. For further inquiry, i will be available with the following address:

Name: Yordanos Solomon

Email: yordanossolomon23@gmail.com

Tel (Mob): +251 -923-25-11-33

**Instructions**

No need to write your name

Please put a tick (√) mark for your response

Duly fill and return the questionnaire promptly

## Section A: Background information of the respondents

**Gender**

☐Male ☐Female

**Age:**

☐18-25 years ☐46-55 years

☐26-35 years ☐56-64 years

☐36-45 years ☐65 years and above

**Educational level**

☐< High School ☐Diploma ☐PHD

☐High School Graduate ☐Bachelor

☐Certificate ☐Masters

**Years of experience**

☐1-5 years ☐11-20 years ☐26 years and above

☐6-10 years ☐21 -25 years

**Nature of your business**

☐Manufacturing ☐Service ☐Agriculture

☐Trade ☐Construction ☐Other

**Your current position**

☐Founder/Owner ☐Successor

☐Family Executive ☐Non-Family Manager

**Number of Years Business Has Been Operating**

☐5 – 10 years ☐21 – 30 years

☐11 – 20 years ☐Above 30 years

**Total number of employees in your organization**

☐Less than 10 ☐50 – 99

☐10 – 49 ☐100 and above

**Which generation of the family is currently leading this business?**

☐First Generation ☐Third Generation

☐Second Generation ☐Fourth Generation and above

# Section B

For the multiple questions listed below please indicate your level of agreement in the appropriate choice by putting a tick (√) mark using a five points Likert's scale, where; 1= Strongly Disagree, 2= Disagree 3=Neutral, 4= Agree and 5=Strongly Agree

## I. Succession planning practices

| NO | Statement | Strongly Disagree (1) | Disagree (2) | Neutral (3) | Agree (4) | Strongly Agree (5) |
|---|---|---|---|---|---|---|
| 1 | Our business has a written, documented succession plan. | | | | | |
| 2 | The succession plan specifies a clear timeline for leadership transition. | | | | | |
| 3 | There are written criteria for selecting the next CEO/successor. | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 4 | The plan includes contingency provisions for unexpected exit (e.g., death, disability). | | | | | |
| 5 | The successor has been involved in a structured mentoring or coaching program. | | | | | |
| 6 | The successor has received formal training (e.g., courses, workshops) to prepare for leadership. | | | | | |
| 7 | The successor has been given sufficient exposure to business operations and decision-making. | | | | | |
| 8 | The successor has received adequate education and training relevant to the business. | | | | | |
| 9 | Our family has a family council or holds regular family meetings to discuss succession. | | | | | |
| 10 | There is a clear process for resolving disputes about succession in our family. | | | | | |
| 11 | Succession planning is discussed openly and regularly in our business. | | | | | |
| 12 | Roles and responsibilities of family members in the business are clearly defined. | | | | | |
| 13 | The successor has been introduced to key clients/customers. | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 14 | The successor has been introduced to key suppliers. | | | | | |
| 15 | The successor has been introduced to bankers or financial partners. | | | | | |
| 16 | Key employees have been informed about the succession plan and timeline. | | | | | |
| 17 | The identified successor has the necessary competence and experience to lead the business. | | | | | |
| 18 | The successor is willing and motivated to take over the business. | | | | | |
| 19 | The relationship between the founder/incumbent and the successor is collaborative and positive. | | | | | |
| 20 | Overall, the successor is well-prepared to assume leadership when needed. | | | | | |

**II. Business Continuity**

| NO | Statement | Strongly Disagree (1) | Disagree (2) | Neutral (3) | Agree (4) | Strongly Agree (5) |
|---|---|---|---|---|---|---|
| 21 | During leadership transitions, decision-making authority is transferred without confusion or delay | | | | | |
| 22 | Key employees accept the identified successor as the legitimate next leader. | | | | | |
| 23 | There is strong confidence among | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | family members that the next leader will perform well. | | | | | |
| 24 | Our business has never experienced a leadership vacuum (period with no clear decision-maker) due to poor succession planning. | | | | | |
| 25 | Daily business operations continue without major disruption during leadership transitions. | | | | | |
| 26 | Customer/client retention rates have remained high after leadership changes (or would remain high if a change occurred today) | | | | | |
| 27 | Supplier relationships remain stable during leadership transitions. | | | | | |
| 28 | Key institutional knowledge and business processes have been successfully transferred to the successor. | | | | | |
| 29 | Our business has maintained or improved its financial performance following leadership transitions (or is expected to do so when the next transition occurs). | | | | | |
| 30 | The business is likely to survive and prosper beyond the current generation of leadership. | | | | | |
| 31 | Family conflicts that could threaten | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | business survival have been minimal during leadership transitions. | | | | | |
| 32 | There is a long-term strategic plan in place that extends beyond the current leader's tenure. | | | | | |

**III. Factors influencing adoption of Succession planning**

| NO | Statement | Strongly Disagree (1) | Disagree (2) | Neutral (3) | Agree (4) | Strongly Agree (5) |
|---|---|---|---|---|---|---|
| 1 | Cultural norms (e.g., first-born must inherit) influence our succession decisions. | | | | | |
| 2 | The founder/current leader is reluctant to retire or give up control. | | | | | |
| 3 | There is a lack of qualified or interested next-generation family members to take over. | | | | | |
| 4 | Legal/regulatory complexity (e.g., inheritance laws, taxes) discourages formal succession planning. | | | | | |
| 5 | We lack awareness or knowledge about how to create a proper succession plan. | | | | | |
| 6 | We lack access to affordable professional advice (lawyers, accountants, consultants). | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 7 | Financial constraints (cost of training, taxes, buyouts) prevent us from formal planning. | | | | | |

IV. **Challenges affecting succession planning implementation**

| NO | Challenge | Severe Challenge (1) | Major Challenge (2) | Moderate Challenge (3) | Minor Challenge (4) | Not a Challenge (5) |
|---|---|---|---|---|---|---|
| 1 | Family conflicts or disagreements about who should lead | | | | | |
| 2 | Lack of qualified or interested next generation family members | | | | | |
| 3 | Founder's reluctance to retire or give up control | | | | | |
| 4 | Cultural norms (e.g., first-born must inherit regardless of competence) | | | | | |
| 5 | Lack of awareness or knowledge about succession planning | | | | | |
| 6 | Financial constraints (cost of training, taxes, legal fees) | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 7 | Legal/regulatory complexity (inheritance laws, registration) | | | | | |
| 8 | Poor communication between generations regarding succession | | | | | |