Care Insurance as a Factor in Succession Planning

Wee-Liang Tan, Singapore Management University

Introduction

Family business succession has been a research topic that has fascinated many in the field. Part of the reason for this interest is the failure of many family businesses to plan for succession early. Handler (1994) and Handler and Kram (1988) argue that the resistance to succession in family firms that occurs at multiple levels: individual, interpersonal group, organizational, and environmental. Of particular interest to researchers is the resistance to succession planning at the individual level from the founder or preceding generation and the successors. Integral to the succession issue is the transfer of wealth from the preceding generation to the succeeding one. Succession to control and management of the business is often entangled with the transfer of wealth because the transfer of wealth in the form of shares in the family business may convey control of the business if a particular family member garners the lion's share of the shares. A number of reasons have been suggested for the delay or inaction in family business succession on the part of ageing business-owners. The reluctance of children to assume leadership of the businesses, the training and development of the succeeding generation, and the need for the incumbent employees to be provided for or to subside to a new leadership are some reasons suggested (see e.g. Venter, Boshoff, and Maas, 2005). Yet it is not uncommon that where there are willing successors, the succession is delayed till the latest possible opportunity with some failing to make the transfer before their death. Why is the preference for delay or inaction in succession planning on the part of the parents?

This paper proposes that the underlying ration d'état for wealth transfer choices in family business succession and timing of the succession is the need for care insurance. Family business owners have been encouraged by the family business literature to engage in

succession planning with much research on the factors influencing succession planning (see e.g. We define care insurance as the succession strategies that assure the family business owners in a preceding generation of care in their senior years (the senior generation as Gersick *et al* 1997 calls them). Hence, we propose that the need for care insurance as an explanation for the succession planning decisions: action, inaction or delay in succession planning.

In the next section, the paper briefly reviews in the next section the family business succession literature with the view of placing the topic of care insurance. The following section outlines the conceptualization of the notion of care insurance and how the need for care insurance affects succession planning. It concludes with the description of the conceptual framework and suggestions how future research can be conducted to examine the role of the need for care insurance plays.

Relevant Literature

Succession planning without much doubt is at the time of writing, the leading topic in family business research that has attracted much research attention (e.g. De Massiss *et al*, 2008; *Cadieux*, 2007; Cabrera-Suarez *et al*, 2001; Handler, 1994; Chau, 1991). Brockhaus (2004) in his review of the succession literature suggested that future research look into industry strategic analysis, family business analysis, selection and development of the successor, and relationship issues. Researchers have also extended their research to examine the succession process (e.g. Cabrera-Suarez *et al*, 2001), the outcomes of succession in terms of satisfaction (Pramodita *et al*, 2003),

While Handler &Kram (1988) suggests that there are four levels of analysis when studying family business succession, this paper concerns itself with the individual level and the founders (i.e. the senior generation). Their interest was in the resistance to succession

planning. In this paper, we adopt the perspective of motivation for or against action – succession planning. By succession planning, this paper refers to the steps taken by the senior generation in a family business to transfer ownership and control of the family business to the members of the junior generation in the life-times of the senior generation.

What is missing from the literature is the extent to which the motivation towards or against succession planning is a reflection of the senior generation's need for care insurance. By care insurance, the author refers to the strategies or steps taken by the senior generation to ensure that they are looked after in their old age. Hence, the term employed in this paper: "care insurance."[1] From this perspective, the decisions of the senior generation on succession planning may be spurred by the underlying fear of not being provided for in old age. For purposes of illustration, it is conceivable for a founder and his wife to defer making a decision on succession planning and opt for a "wait and see" strategy. This "wait and see" strategy provides the senior generation insurance against making the wrong choice. They wait and see if the children would still provide love and care for them. In so doing, they delay succession planning, defer any transfers and might allow for transfer at death to the surviving spouse, who then makes the ultimate decision.

Conceptualizing Care Insurance and its Antecedents

The term "care insurance" draws upon the terminology in the insurance industry to cover insurance policies to cover individuals for long term care. This category of insurance policies enables individuals to insure against their needs for care when they age. Just as individuals needs long term care, the senior generations in family businesses would need care insurance. Their needs of care insurance would be influenced by various factors. This paper argues that need for care insurance is a key influence upon the senior generations' decisions on

[1]The author wishes to acknowledge Prof. Michael Nippa's suggestion that this be the term of endearment for this issue.

succession planning. The need for care in the face of population ageing in most countries draws attention to this as an area to which attention is necessary in the field of family business research.

The senior generation in any family business would have the options to plan for succession and implement such plans with the view that the junior generation succeed to ownership and/or control over the family business. They could delay the succession planning with the wait and see approach described earlier in the previous section. This approach would maximize care insurance in the hands of the senior generation. This approach places the wealth and the family businesses in the hands of the seniors. In effect, the risk of there being no care in their old care is least in this case as the junior generation does not inherit the wealth or the family business. Adopting this approach indicates the lack of trust of the seniors in in the junior generations. This is the default option in succession planning where there is a high need for care insurance: inaction, not to transfer wealth and the family business letting the inheritance laws deal with the transfers or any wills they may have prepared. Inaction represents one end of a continuum.

The need for care insurance is central to the decision-making considerations of the senior generation on succession planning. Should the senior generation members not have made provision for themselves, there would be hesitation on their part to initiate succession as to defer such a decision provides the greatest degrees of freedom for themselves. The family business *per se* may have a fair value associated with it, and from an outside third party perspective, it might make better sense for succession to occur, for younger people with energy and ideas to manage the business. From the perspective of the founder or business owners, the business might provide them with benefits like club memberships, car, other expenses, social status, etc. Hence, to part with ownership and control of the family business

through succession planning, could lead to their being deprived by the benefits that have long been with them as part of the family business.

In essence, from the economic perspective, this is a principal-agent problem, where the principals (senior generation) are not concerned about the business alone but their self-interests. When the senior generation engages in succession planning, it could see the junior generation becoming the business owners with power over the family wealth and business. The members of the junior generation become the principals in the sense that they assume the mantle of the seniors. They are still "agents" in that the senior repose the hope that the junior will care for them. The senior generation members lose control and are at risk as with succession there is little economic incentive for the juniors to uphold any bargain they may have made. It is normal in succession for transfers to take place without any obligations of a legal nature placed on the successors.

A number of factors operate as antecedents to the need for care insurance. As we are discussing succession planning considerations at the individual level, the first factor to be included would be the individual's degree of self-interest. Self interest lies as the heart of all human beings. However, as senior generation comprising in most instances parents, self-interest is tempered by altruism, which is the base motivation for the nepotism that occurs in family businesses (Dawkins, 1976). While theory of selfishness at the gene level leads to the conclusion that the senior generation would be inclined towards the junior generation succeeding to the business, at the level of the individual self-interest may lead to a different outcome.

Cultural norms would impinge on succession planning decisions. Confucian values, for example, influence succession (Yan and Sorenson, 2006). The cultural norms would shape the behavior of the seniors towards the juniors and vice versa. The norms might present to the seniors a norm on the level of care that the juniors ought to provide to the seniors. In

Confucian society, filial piety and submission to elders is part and parcel of family life and in some cases, societies. The preference of Chinese family businesses to retain ownership and management flies in the face of the recommendations for growth in the literature (Tan and Fock, 2001). Yet these norms may be prefixed upon the junior generation fulfilling filial piety obligations. Face is another cultural norm that would impinge on need for care insurance. Depending on the cultural norms on face, there could be differing degrees of need for care insurance. Face and shame of failure in business affects entrepreneurship intentions in East Asian countries while the same had the reverse effect in Anglo-Saxon countries (Begley & Tan, 2001). There may be cultural norms that place expectations on the seniors on the inheritance rights of the juniors prior to their deaths. Face considerations may compel adherence to these norms.

Existing relationships in the family and the business would impinge on the need for care insurance. The relationships within the family and the business are somewhat inter-related, regardless the degree, if at all, the juniors are involved in the family business. Sibling rivalry (Friedman, 1991) not just for primacy in the family business but also for parental approval or affection would play on the senior generation's perceived requirement for care insurance. Lansberg and Astrachan (1994) found that the quality of the owner-manager and successor relationship influences the effects of family adaptability and family cohesion on succession planning and successor training. It stands to reason that good relation between the generations engenders trust and confidence in both parties (see McCollom, 1992). For the purpose of this paper, it is the confidence of the senior generation in the junior that row with good relations. If the parents trust the children, then the need for care insurance will be low. Where the relations are strained, there would be a higher need for care insurance as there would be mistrust and intergenerational unhappiness.

Economic considerations also play a part in determining the need for care insurance. Where the senior generation possesses personal wealth outside the business, the need for care insurance may be low. Here the seniors could effect succession planning without risk to their personal old age care plans if they have funds separate from the family business. In such an instance, they could transfer the family business over to the junior generation and let them control the business without concerns for their own interests. Possessing personal wealth apart from the family business would clearly influence the need for care insurance, if care insurance is limited only to the tangible aspects. With personal wealth the seniors can buy medical treatment, nursing care, and meet the needs that care insurance from the junior generation would have provided.

Conceptual Framework

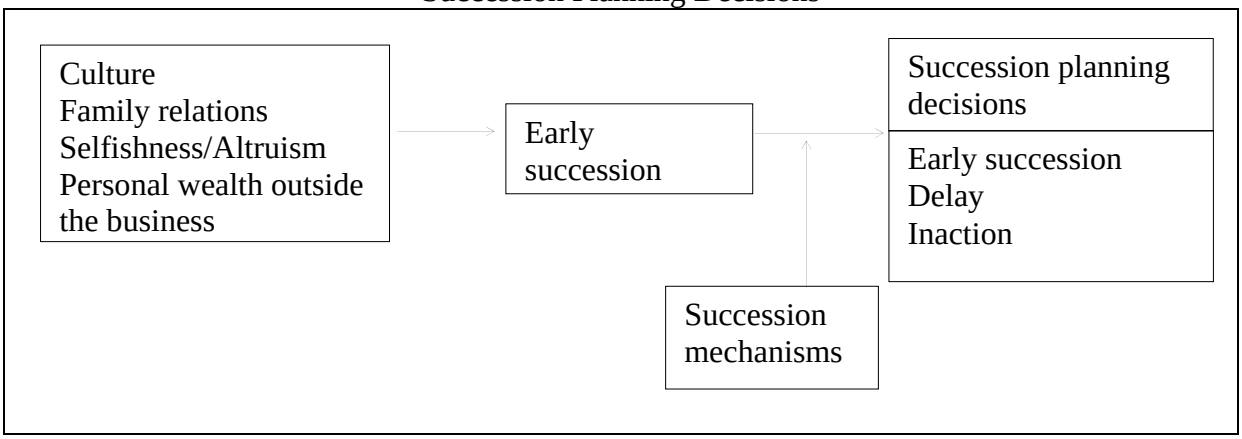
The foregoing discussion envisages a number of factors acting as antecedents to the need for care insurance. The resultant conceptual framework is shown in Figure 1 below. The antecedents to the need for care insurance are culture, the state of family relations, the seniors' selfishness (or altruism) and personal wealth outside the business. The need for care insurance would affect the succession planning decisions. There are three possible succession planning decisions: early succession, delay in succession (that is, later in time than optimal) or inaction (do nothing). A high need for care insurance would be associated with delay or inaction in succession planning. Conversely, a low need for care insurance would be associated with early succession or a degree of delay in succession planning.

However, the existing family succession mechanisms would moderate the succession planning decisions. The succession mechanisms can take the form of gifts, trusts, wills, and agreements. Access to the mechanisms may be subject to laws and regulations as they apply

to the contexts of each family. Hence, if the succession mechanisms are complicated to

Figure 1: The Antecedents for the Need for Care Insurance and its Effect on

Succession Planning Decisions



Implement in the light of the situation, the effect of a high need for care insurance could be augmented. On the other hand, if the succession mechanisms could be easily implemented, the effect of a low need for care insurance could be augmented.

Propositions can be developed for the model for future research. Suggested propositions are outlined below:

Proposition 1: The degree of need for care insurance is associated with a decision to delay or not act upon succession planning.

Proposition 2: Cultural norms will influence the need for care insurance.

- *Proposition 2a*: Cultural norms promoting the need for the junior generation to provide for the senior generation in old age is associated with a low need for care insurance.

- *Proposition 2b:* Cultural norms promoting the need for senior generations to provide for their own long term care with minimal roles for the junior generation over care of the senior generation is associated with a high need for care insurance.

Proposition 3: Good intergenerational family relations will be associated with a low need for care insurance and vice versa.

Proposition 4: The personal values of the senior generation towards altruism or selfishness will affect their need for care insurance.

Proposition 4a: High altruistic values held by the senior generation will be associated with a low need for care insurance.

Proposition 4b: Low altruistic values held by the senior generation will be association with a high need for care insurance.

Proposition 5: The higher the amount of personal wealth outside the family business owned by the senior generation the lower the need for care insurance.

Empirical research is needed to validate and test the model. There is a need to check in the family systems literature for prior research on wealth transfer and draw upon that research for the model as time has not permitted this researcher to do so. Drawing personal experience in an overseas Chinese family in Singapore, where there was little family wealth and three sons, the author's father opted for the "wait and see" default approach of inaction: no transfers of wealth took place prior to his demise; the transfer of wealth in the form of apartment and monies in bank accounts were by way of survivorship. His stated position for so doing was care insurance. Unsure which son or sons would be filial and look after mum after his death, he opted to place wealth in his wife's hands and have her decide what happened next. While my family was not in business, this brief vignette reveals the role that the need for care insurance plays in succession decisions.

Conclusion

This paper seeks to develop a model employing the need for care insurance to explain the delay or inaction on the part of business owners in engaging in succession planning earlier. The intent is not to discount prior perspectives on succession planning, such as the timing of successor entry (Harvey & Evans, 1994) or the role of involvement (Welsch, 1993). It is consistent with perspectives such as the theory of planned behavior as applied to succession planning (Sharma *et al*, 2003). It lends a relevant perspective to succession planning in the light of the ageing population that grips most economies and would have an impact on the future of family businesses.

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