# Family Business Succession: The Impact of Customer Relationship Management and Customer Based Brand Equity on Firm Success or Failure

**Catherine Ashley-Cotleur**
**Frostburg State University**

**Sandra K. Kauanui**
**Florida Gulf Coast University**

**Carol J. Gaumer**
**Frostburg State University**

*This paper addresses second generation family business and the necessary nurturing required to sustain current customer relationships and existing brand equity. As power is transferred from the founder to the next generation, family stresses, organizational issues, and leadership characteristics of the successor take center stage. Established relationships with customers, suppliers, and employees may not receive the necessary attention, thus negatively impacting hard-earned brand equity. Failure to nurture customer relationships may cause the loss of key stakeholders, contributing to second generation business failures. Reasons for relationship and equity deterioration are examined, along with suggestions for future research. The purpose of this paper is to reconcile two distinct marketing strategies: customer relationship marketing with brand equity.*

## INTRODUCTION

The death or retirement of the first generation owner of a family business is a critical point in the family business and may be fraught with peril. The literature suggests that only 30% of businesses survive into the second generation and even less (about 13%) into the third generation (Reckhard & Dyer, 1983; Ward, 1987; Kets de Vries, 1993). It is at the point of transition, like the death of the owner, that many successful enterprises begin a period of stagnation and decline (Birley, 1986; Handler, 1990). One of the primary reasons for the difficulties experienced during succession is the founder's unwillingness or inability to prepare the next generation for the leadership position (Churchill & Lewis, 1983; Dyer, 1986; Levinson, 1971). As a result, the successor's poor leadership and organizational skills have generally been associated with the decline in the business (Ibrahim & Ellis, 1994).

An issue not often discussed is the successor's ability to maintain the unique relationships that have developed between the creator of the business (the entrepreneur) and his customers, employees and suppliers. These relationships are oft fragile at the time of succession, and inattention to the nurturing required may result in significant financial loss. This paper looks at the issue of merging two distinct marketing strategies: customer relationship marketing with brand equity (or customer based brand equity). Both rely on established strong customer relationships at the point of business succession. In addition to developing the conceptual framework, suggestions are made for a research study to confirm or disprove the propositions advanced by the authors. As such, the paper begins with an overview of the nature of family business that includes a discussion of the characteristics of the founder's personality, the unique relationships established by the founder and the family issues relevant to the succession process. Following this discussion, there is review of the literature on relationship marketing, customer based brand equity, and the impact on family business. In the final section, there is a discussion of how the theoretical frameworks can be applied in the field of family business.

## THE NATURE OF FAMILY BUSINESS

In examining the nature of family business, it is important to begin by defining what constitutes a family business since there are a number of competing definitions in this area.

### Definition of a 'Family Business'

Generally, a business is considered family-owned if it owns 50% or more of the equity and more than one family member works in the business (Shanker & Astrachan, 1995). However, some researchers also refer to family businesses when a member of a founder's family manages the business, after a succession has taken place, and the family still owns a controlling interest (Ibrahim & Ellis, 1994). For purposes of this paper, family businesses will be defined as those businesses that have two or more family members working in the business, who have financial and managerial control, and/or an intergenerational transfer has taken place.

### Definition of 'Family Business Succession'

According to Ward, business succession is when the business is passed on to the family's next generation to manage (1987). Too often succession in a thriving family business leads to stagnation or financial failure (Handler & Kram, 1988). Ward (1987) found that only one-third of family-owned businesses survived the retirement or death of their founders and only 13% made it to a third generation. These significant failure rates are accounted for in all sorts of ways: lack of business knowledge, skills, and commitment on the part of successor generations, lack of planning for succession, and family problems that impact business operations (Birley, 1986; Ibrahim & Ellis, 1994; Frishkoff, 1994; Handler & Kram, 1988; Rosenblatt et al, 1985). As discussed below, the founder's personality and the unique relationships established by the founder may also be relevant factors in the succession process.

### Definition of the 'Founder's Personality,' the Entrepreneur

The founder of the business, the entrepreneur, has been portrayed to have high levels of commitment to the business (Cyert & March, 1963) and customers (McClelland, 1987), a propensity for anticipating problems and dealing with them proactively (Hornaday & Aboud, 1971).

According to Stevenson, a business founder, i.e., an entrepreneur, possesses:

1. Intuition (Stevenson et. al, 1989)
2. Willingness to Take Risks (Hornaday et. al, 1971)
3. Creativity (Drucker, 1985)
4. Independence (Goodman, 1994)
5. Flexibility / High Tolerance for Ambiguity (Ibrahim & Goodwin, 1986; Fernald & Solomon, 1996)
6. Proactive Management Style, seizes opportunities as they arise (Stevenson et. al, 1989)

As a result of these personality traits, the founder has built a successful business (Ibrahim & Ellis, 1994). Due to the founder's strong personality, a dependency culture is often fostered (Dyer, 1988) among family members, suppliers, customers and employees who become fearful that the loss of the founder means disaster to the business (Bork, 1986; Dyer, 1986; Schein, 1985). As a result, it is very common that no one discusses or confronts the succession issue in a family business until it is almost too late, resulting in problems for successor generations (Dyer, 1986; Rosenblatt et. al, 1985). In order to understand the problems facing the second generation during succession, it is important to understand how the first generation grew the business.

**Definition of 'The First Generation Family Business'**

The first generation family business is willed into existence and sustained by the personality and talents of its founder, the entrepreneur (Adizes, 1989; Lansberg, 1988; Peiser & Wooten, 1983). It is a fragile institution. It normally starts out with little capital and few customers. At the beginning, the growth of the business is mainly dependent on the founder (Levinson, 1971).

Absence of a track-record forces the founder, and his customers and suppliers, to take risks (Churchill & Lewis, 1983). For example, the entrepreneur may be forced to take on marginal customers and suppliers, while customers and suppliers must rely on promises that may or may not be fulfilled. As a result, a certain level of trust must be established in the relationship between the entrepreneur and those he must depend on to grow the business (Ward & Arnoff, 1991).

**Relationship Building, First Generation**

The interdependence that develops in the entrepreneur's professional life may spill over to his/her personal life (Kets de Vries, 1993). Friendships may develop out of business relationships or, alternatively, an entrepreneur's first customers may actually be his/her personal friends and/or family members (Donnelley, 1965).

The same situation often occurs for employees of entrepreneurial firms. The employees sign up for a dream (Conger, 1990). They share the entrepreneur's vision of creating something out of nothing. Consequently, they work long hours at less pay for the opportunity to reap benefits in the future when the business is prosperous. These relationships, among founder, customers, suppliers and employees, are unique at the beginning of a new business (Churchill & Lewis, 1983). One could argue that they are stronger because of the risks involved, the founder's unique characteristics and/or the need to trust in each other's integrity and goodwill.

Ward and Aronoff (1991) vouch for the importance of trust in business relationships and indicate that family businesses can be particularly trustworthy because of the importance of protecting the family's name and economic future. They argue that family firms, which retain values such as commitment, loyalty and trust as guides to decisions and operations find themselves at a strategic advantage (Ward & Aronoff, 1991).

**Second Generation Leadership**

Depending on the stage and the role requirement of the business, the second generation may or may not be required to carry on in the entrepreneurial mode established by the founder (Churchill & Lewis, 1983; King et. al, 1996). For example, in Dyer's research (1988), he found that approximately 80% of first generation firms were managed through a paternalistic culture. On the other hand, he found that in order for the new leadership to take over, it was necessary for the culture to change. Therefore, it appears that it is extremely important for the successor to establish a positive future direction, while maintaining the gains of the past.

As the research clearly demonstrates, many successors are not capable of such leadership and will be unable to manage effectively (Jaques & Cason, 1994; King, 1997). In addition, the successor may lack the commitment and/or training to maintain and/or develop customer, supplier or employee relationships into the next generation (Dyer, 1988; Rosenblatt, 1994).

## Family Problems in Succession

Along with the capability of the successor, there have been numerous family problems associated with the succession process. Messy succession fights, which can deplete energies and cause hard feelings in families, may distract the successor's attention (Levinson, 1971). In an attempt to treat children fair and equal, an increasing number of founders are leaving their businesses to more than one child (Arthur Andersen, 1995). As a result, there are often problems with sibling rivalry. Because the successors are spending more time fighting, than managing the business, it is becoming evident that sibling rivalry is destroying many successful family businesses (Kets de Vries, 1993; Miller, 1998).

In addition, a successor may feel pressure to perform better than his/her predecessor, which can often lead to reckless decision-making (Ibrahim & Ellis, 1994). Peter Davis says "the need to equal or outdo an entrepreneurial father is one of the most compelling forces" in a second generation business, setting up the "need to create something bigger, to remove themselves from dad's shadow" (Ibrahim & Ellis, 1994, p. 35). If motivated in this way, a successor may change the organization too quickly or unnecessarily to establish his/her own mark on the business. Competition with 'dad's legacy' can also lead to a disregard for the advice of non-family senior management still within the firm (Ibrahim & Ellis, 1994). This lack of respect for authority may cause some senior managers to bolt when the second generation takes over.

## Maintaining Customer Relationships

The inability to maintain the pre-existing customer relationships, following a succession, may in fact be a major issue in the succession process for many family businesses. The issue of how to maintain and support those relationships can be further understood when examined through the literature in relationship marketing. The latest research combines relationship building/marketing and the hard-earned brand equity of a firm.

# CUSTOMER BASED BRAND EQUITY

The decades of the 1980s and 1990s saw a shift in marketers' attention away from attracting new customers and towards the retention of customers already captured by the company. Dubbed relationship marketing, the new emphasis is on "building long-term satisfying relations with key parties, customers, suppliers, distributors -- in order to retain their long-term preference and business" (Kotler, 1997, p. 12). In short, relationship marketing is about "transforming indifferent customers into loyal ones" (Berry, 1995, p. 236). The new focus occurred for a number of reasons, but was primarily driven by competitive pressures and financial realities. For example, new customers were harder and harder to come by and it was cheaper to serve already existing customers than to attract new ones. This focus on customer retention and loyalty measurement led to customer based brand equity (CBBE). CBBE stems from fiercely loyal customers who serve as *ambassadors* for a firm.

Kotler defines a brand as, "a name, term, sign, symbol, or design, or combination of them which is intended to identify the goods and services of one seller or groups of sellers and to differentiate them from those of competitors" (1991, p. 442). Firms, to stay competitive, want to be identified as something or known for something. Small businesses often use customer relationship management as a defining asset. Brand equity research emerged in the early 1990s where the focus of branding started moving away from a branded product toward the desires of the consumer. It was this consumer-based perspective that Aaker (1991) and Keller (1993) based their research and coined the phrase, consumer based brand equity (CBBE). Aaker defines brand equity as, "a set of brand assets and liabilities linked to a brand, its name and symbol, that adds or subtracts from the value provided by a firm" (1991, p. 15). Brand loyalty lies in a consumer's propensity to be loyal, both attitudinal and behavioral loyalty, both studied in relationship marketing frameworks. From the beginning, customer loyalty was the primary behavioral goal when relationship marketing strategies were considered.

### Benefits to Companies and Customers

The long term view of 'customers for life,' is similar to that of brand equity since the CBBE components are built-up over time. Relationship marketing was conceptualized as marketing to existing customers where the value to firm is that maintaining existing customers is *cheaper* than attempting to obtain new customers (Berry and Parasuraman, 1991). Both customers and companies benefit from customer based brand equity (or fierce loyalty). The primary motivation for businesses to engage customers in long-term relationships is that it positively affects the bottom line. Heskett et. al (1994) postulate a Service-Profit chain operating in businesses that directly links revenue growth and profits to customer loyalty. Customer loyalty, thus CBBE, is built through a chain of events that begins with the company providing a good product and work environment, which leads to employee satisfaction and results in employee retention and productivity. Thus, long-term productive employees provide the customer with good service value that leads to customer satisfaction and loyalty. Loyal customers, Heskett argues, are the primary determinants of financial success.

Support for Heskett's theory comes from a number of studies. The link between employee retention and customer satisfaction is reflected in customer satisfaction scores, which drop as much as 20% when valued employees leave a business (Heskett, 1994). The impact of customer loyalty on revenue growth and profits is demonstrated by Reichheld and Sasser (1990), who estimate that a 5% increase in customer loyalty can produce profit increases of 25-85% depending on the industry. Additional research indicates that loyal customers can result in market share gains of 6% a year (Gerson, 1992); it costs five times as much to attract a new customer as it does to keep an old one (Lele & Sheth, 1987; Glanz, 1994); primarily because loyal customers generate better quality sales, cost less to serve, and are an important source of referrals (Reichheld & Sasser, 1990).

Heskett's Service-Profit Chain is particularly relevant to first generation family businesses because it gives them a blueprint for how to grow and maintain a successful second generation business. Customers can also benefit from relationship marketing. For example, Bagozzi (1995) argues that the primary reason customers develop long-term relationships with sellers is to realize goals related to product or service acquisition. Secondary reasons include benefits associated with the relationship itself, regardless of "what the relationship may lead to in an instrumental sense" (Bagozzi, 1995, p. 273). Bagozzi indicates that consumers will, at times, even act contrary to their best interests for ethical or moral purposes (1995). An example would be when an individual will purchase only Ben & Jerry's Ice Cream, even if he/she thinks it's too expensive, because she agrees with social causes supported by the company and its corporate governing philosophy. As will be discussed later, establishing relationships with family businesses can be particularly beneficial to consumers who value the personal nature of the relationship, which has developed because of the founder's strong commitment to his/her customers. The depth of the relationship developed between consumer and company, as discussed in the next section, also contributes to how beneficial the overall relationship is.

### Levels of Customer Relationship Management

The purpose of this paper is to attempt at the reconciliation of two distinct marketing strategies: customer relationship marketing and brand equity. Berry and Parasuraman (1991) identify three different levels of customer relationship marketing. The first is a relatively easy and transitory way to encourage customers to repurchase the product through price incentives. Frequency marketing programs are good examples of such efforts in which a customer is rewarded with frequent flier miles or free merchandise after so many purchases. To call these customers loyal, however, may be stretching it since most of them will bolt for a better price.

Social bonding, the second level, is a different and a more permanent way to tie a customer to the business. In this scenario, customers and suppliers become friends. For example, first names are used, contact is made outside the business world in social settings, and written greetings are exchanged at birthdays and holidays.

The third level, structural relationships, is the most enduring because it ties buyers and sellers together in a mutually beneficial relationship, which significantly affects how each does business. The most obvious example of this is the relationship between a company and its computer hardware/software provider. Once a certain technology is chosen, businesses will resist changing because the switching costs associated with using another vendor are high. Additionally, the vendor may have invested significant dollars in customizing the products for the customer, so s/he is equally committed to continuing the relationship.

**Establishment of Long Term Relationships**

Long term relationships can be established by offering a product or service, which meets customers' needs, that is delivered in a friendly, caring, responsive, convenient, and flexible way. Provide this and the payoff, as LeBoeuf (1987) and Sewell (1990) explain, is “Customers for Life.” In essence, customers are asking for what family businesses do best – particularly when they first start out and every customer has the potential to make or break the business. How is it done? The answer goes back to Heskett's Service-Profit Chain. The company must become a partner with the customer, anticipating needs and developing a level of trust that commits the customer to staying in the relationship (Bell, 1994). To do this, companies must empower their employees to respond quickly and substantively to customers' requests. Employees must be able to solve customers' problems without asking permission to do so. They must be able to throw away the rulebook and make up new rules on the spot that deliver what the customer wants.

They must be able to correct mistakes immediately so the customer is satisfied that the company cares and is willing to stand behind its products. In short, employees must be allowed to treat customers as friends and to use common sense in responding to requests (Whiteley, 1991).

Heskett found that a key component of employee satisfaction is a feeling that they are able to solve customers’ problems. Employees who can solve customers' problems is what creates loyalty (LeBoeuf, 1987). For example, the Forum Corporation (Eggers, et. al, 1993; Whiteley, 1991) found that 70% of customers leave one company to buy from another because of problems associated with inadequate service and poor treatment by employees; only 30% leave because the product does not meet their expectations or the price is too high. Even if a product or service is faulty, seven out often customers will return if the problem is solved to their satisfaction. A whopping 95% will return if the problem is solved on the spot (Glanz, 1994). Unfortunately, this is easier said than done. As a company gets larger, and management gets farther away from its front line employees, the trust level between management and employees becomes less and less. As a result, these employees are denied the power to act and the customer ends up frustrated.

**Trust in Relationships**

The issue of trust deserves further mention because it is so critical in relationship marketing. Berry (1995, p. 242) asserts that "relationship marketing is built on the foundation of trust." He finds this to be particularly true in the service business because of the intangible nature of services. In their examination of buyer-seller interactions, Doney and Cannon (1997) indicate that "as business marketers placed greater emphasis on building long-term relationships, trust has assumed a central role in the development of marketing theory and practice" (p. 35). Trust operates on a number of different levels: between the business and the customer, between the supplier and the business, and between the employees and management. This relationship is not one way. For instance, not only must management trust its employees, but employees must also trust management.

Family businesses are particularly adept at relationship marketing because of the way the business grew up and the founder’s entrepreneurial style. The next section will explore the unique connection between the two, followed by an examination of how the succession process may impact those initial relationships.

## DISCUSSION

The first generation of a family business is built on developing relationships with customers, suppliers, and employees. As discussed previously, the entrepreneur's need for customers, understanding of their importance, commitment to their well-being and willingness to take risks is instrumental in starting the business. In addition, closeness to employees, and the establishment of trust with all members of the business 'family' contribute to helping the founder establish a viable business and brand equity in the marketplace. As demonstrated earlier, social relationships, established at the beginning of the business, tie customers and suppliers to the business. For this reason some customers, because they value the friendship and/or feel a commitment to the founder, may buy from the firm past the time when it is in their best interests to do so.

Introduction of the second generation changes the dynamics of the relationships. It is at this point that customers, suppliers, and employees become anxious about the new leadership. This anxiety becomes exacerbated if the successor is distracted by transference of power issues and is not able to alleviate their fears. At the very time when long term associates of the firm need the most comforting, the successor may be least prepared to do so. In addition, the agenda of the second-generation business owner, as explained previously, may be different than the founder. In the interest of showing up "the old man," some successors choose to emphasize growing the business (Danco, 1982; Ibrahim & Ellis, 1994) at the expense of serving the current customers. This assumes that the current customers will always be there. Unless relationships have gone beyond social bonding, based on friendships, into the arena of structural bonding where partnerships develop on the basis of mutual dependencies, this is a dangerous assumption (Berry & Parasuraman, 1991).

Another strain on the existing relationships occurs when the new leader does not honor special financial arrangements negotiated by the founder for established customers. In addition, any special access accorded these customers may be limited in the second generation. This will compromise the trust that previously existed between the founder and his customers, eroding relationships that have taken years to establish.

Studies have also shown that the successor's relationship with long term employees may not be as strong as the founder's, resulting in these employees leaving the firm. Much like the founder, the employees have built up associations with customers and suppliers that will be jeopardized when the employees no longer work for the business. As Heskett's Service-Profit Chain indicates, employee turnover leads to customer dissatisfaction and a falloff in customer loyalty that ultimately affects revenues and profits.

Failure of the second-generation family business owner to nurture the relationships, which have been established with customers, suppliers, and employees, can place the loyalty of these groups at risk. For those customers and suppliers who are doing business with the firm primarily because of the relationships established with the owner, they may use succession as the trigger to sever the relationship.

### Research Recommendations

The comments above are suppositions. However, they are based on grounded research from both the family business and marketing literature. The next step will be to test the propositions using both qualitative and quantitative research.

Qualitative research would involve a longitudinal study, beginning with interviews of second generation family business owners/managers at the point of succession. The interviews would test the successor generations' attitudes and behaviors toward established customers, suppliers, and employees. Attitudes would be measured on a Likert Scale and would explore how important the new managers felt current customers, employees, and suppliers were to the business. Issues of commitment, responsibility, loyalty, friendship, respect, and caring would also be measured to evaluate how relationship friendly these attitudes were. Success or failure of the business would then be tracked to see if successors who scored higher on relationship aspects of the business were more likely to maintain successful businesses into the next generation.

Specific behaviors toward established customers, suppliers, and employees at the point of transition would also be measured. For example, the new managers would be asked if they had taken any special steps to ensure that: (1) customers, suppliers and employees were reassured about the transference of power; (2) special arrangements between the founder and his customers and suppliers continued to be honored; and (3) relationship ties had been maintained. Again, these behaviors would be scored as to how positive or negative they were in continuing the relationships built up by the founder. Scores on the behavior variables would be correlated with the future success or failure of the firm to see if behavior friendly actions toward loyal customers, suppliers, and employees positively impacted the firm's ability to financially succeed.

In addition to the qualitative research, quantitative research would entail identifying customers, suppliers, and employees at the point of succession and then tracking the retention of individuals in these groups into the successor generation. Levels of retention of these individuals would then be correlated with the financial success or failure of the firm to see if there is a significant statistical relationship between the two.

## CONCLUSION

Relationship marketing is about building a business one customer at a time over time. This slow and steady build-up of loyal customers creates a phenomenon known as customer based brand equity (CBBE). It's something that comes naturally to family businesses because they generally start out small and understand the value of each customer. But, as the business passes from the founder to the second generation, these loyal customer relationships are often tested. As a result, it is up to the successor to assure customers, suppliers, and employees that they are still a valued part of the operation. An inability to do so may lead to an erosion of the business' loyal customer base and may precipitate or contribute to the failure of the firm for the second generation. Brand equity may become deteriorated to a point of no return. Consequently, it is extremely important for empirical research to follow this study.

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