

# Co-creating impactful succession plans:

The benefits of applying inclusive innovation thinking to the succession plans of small and medium sized enterprises.



By: Wouter de Wit  
December 2023

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## Executive Summary

SMEs are a cornerstone of South Africa's economy, contributing a substantial portion to the GDP and playing a key role in employment generation. However, the report notes a significant lack of preparedness for succession among many SMEs. This gap poses considerable risks not only to the businesses themselves but also to the broader economy and society. The absence of effective succession planning in these enterprises threatens their sustainability and, by extension, the economic stability they support.

To comprehensively understand these challenges and devise potential solutions, the study adopted a qualitative research approach. This involved conducting interviews with SME founders and consultants specializing in succession planning. These primary insights were then integrated with academic research on the subject, providing a holistic view of the situation, and a particular intention to discover economically attractive solutions that may positively impact society.

One of the central themes of the report is the organisational conflict between entrepreneurship and professionalization within SMEs. As these businesses grow, founders often find it challenging to delegate control, which can hinder professionalization and readiness for succession. This reluctance to relinquish control is a significant barrier to developing effective succession plans. The report suggests that addressing this issue is crucial for ensuring the longevity and success of SMEs and their value to society.

The report introduces the concept of inclusive innovation, which is deemed essential in mitigating the societal risks associated with poor succession planning in SMEs. Inclusive innovation involves engaging various stakeholders, including employees, in the succession planning process. This approach not only fosters business growth but also promotes staff development and a sense of collective ownership and responsibility.

The report's findings highlight the difficulties SME owners face while engaging in succession planning, suggesting that this is primarily due to a desire to maintain control. This mindset can negatively impact the business's ability to transition smoothly to new leadership. To counter this, the report recommends early engagement with succession planning professionals, cultivating a culture of co-creation, and even fostering partnerships with universities for ongoing research. Such strategies can help SME owners to embrace inclusive innovation, thereby ensuring that their businesses are well-prepared for future transitions.

The report also underscores the importance of considering the broader societal impact and legacy in succession planning. It advocates for moving beyond mere financial stability and towards contributing positively to the community and economy. This approach is particularly relevant in the South African context, where the role of businesses in societal development is critical.

The report serves as a crucial call to action for SME owners, urging them to proactively engage in succession planning with a view to their businesses' long-term success and their broader impact on society and future generations.

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## Introduction

*This paper develops an argument to encourage the development of economically driven succession plans that have the potential to positively impact society*

**The purpose of this study is to understand how SME founders can create effective succession plans that positively impact society while also benefiting their business.**

These plans should not only reward them for the risks they have taken but also leave a legacy of positive economic impact on society.

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*SMEs contribute 34% of South Africa's GDP. (IFC, 2018)*

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Since it is widely acknowledged that Small to Medium-Sized Enterprises (SMEs) play a significant role in South Africa's economy (In on Africa, 2018), and entrepreneurship is regularly touted as the key to unlocking economic growth and employment, what happens if these businesses do not secure their future through succession? This would certainly have a significantly negative impact on South African society.

**To achieve the purpose of this study, interviews were conducted to explore how manufacturing SME founders think about succession planning in their businesses.** In this report we are particularly interested in how they make important decisions, how

much they consider other stakeholders (family, society) when making these decisions, and whether they envision a future for themselves beyond their businesses. The insights gained from these interviews are later integrated into four relevant areas of academic research that correlate with the themes that emerged from the interviews.

**Academically observed reasons for succession difficulties are considered in terms of the apparent conflict between entrepreneurship and professionalisation in SMEs.**

The academic topics that are investigated were chosen based on initial insights from the interviews that were conducted. Insights into the theme of control indicated that maintaining entrepreneurial control was a crucial factor for founders, especially while they were establishing their business. The culture and systems of control that were formed appeared to limit capacity for further innovation as the business grew beyond a certain threshold. A lack of further growth through innovation seems to have become acceptable as the owners have aged and achieved financial stability. Many founders face the challenge of maintaining innovation and growth focussed entrepreneurship while retaining a sense of control and even purpose in their businesses.

Academic literature on this challenge highlights the difficulty with organisational transformation when businesses grow beyond the systems and capabilities that previously served them. This will be explored under the guise of the Founders Dilemma.

**Inclusive innovation is investigated due to the observed societal risk associated with SME owners that find themselves at the point that organisational transformation is required, while also being at a stage of life where they would rather start settling down to some extent.** Our findings from the interviews are structured around the recognition of this risk and how academic literature and the experience of business owners overlap. We show how certain attitudes to entrepreneurship negatively impact on development within the business as well as society. We observe opportunities for businesses to focus on staff development that builds capacity to grow, as part of impactful strategic succession planning.

Finally, we share our findings and suggest ways that manufacturing SME owners can begin to create succession plans that benefit not only their businesses but also the broader communities in which they operate.

## Succession Planning Background

*For Small to Medium Sized Enterprises (SMEs) to achieve successful succession, founders need to be willing to delegate increasing control to competent managers, as this approach fosters a supportive environment for succession.*

**The lack of succession planning rooted in maintaining founder control poses the greatest risk for SMEs that survive the start-up period.** The following statistics highlight that there are both internal and external components to succession success or failure:

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*“Between 10% and 15% [of family businesses] reach the third generation.”*  
- (Porfirio et al, 2020. pg250)

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*“85% of SMEs are not sellable.”*  
- Graham Stephen of Bizval

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The quantity and depth of research into SME succession in family-owned firms highlights that transferring ownership inside the family is historically the default and even preferred form of succession for SME owners.

A key internal component to successful succession in the context of the owner's attitude is their support of successors. Succession success has consequently been linked to the degree to which successors feel supported by the outgoing leaders. This

highlights the challenges associated with smaller firms that have relied on a founder to maintain control over many years of operation (Porfirio et al., 2020). This is further supported by studies that quantify that trust in the successor's abilities and intentions is an important variable for the success of a succession plan. (Venter et al, 2006)

Externally there has however also been a growing number of SME transfers occurring between unrelated parties (Matalamaki et al, 2020) despite the low success rate. Increasing research into the transition from founder run to CEO run businesses (Gedajlovic, 2004) offers valuable insights for proactively addressing the vacuum that arises when succession plans necessitate the sale of the SME with founders not remaining involved.

**Growth opportunities are missed when owners retain too much of the control that formed the foundation of their early success.** This growing body of research into the challenges faced by start-ups as they mature is focussed on the shift in governance and leadership that is required over this period (Gedajlovic, 2004). Early research used the term *Threshold Firm* (Clifford, 1973) to describe businesses that began to outgrow the ability, capability, or capacity of the founder(s)

or owner(s) to manage or control all aspects of their business. SMEs in this position will either forfeit potential value for sale to external parties or demoralise potential internal successors.

**Scaling a business through growth requires a structure and culture that allows distributed responsibility.** Narrow and informal management structures often function very well during start-up periods. However, they often prove insufficient to serve a business in taking advantage of growth opportunities once they reach the *threshold* (Daily & Dalton, 1992). The practices required to position SMEs for growth eliminate many of the risks associated with founders that have been unable to distribute responsibility.

**Professionalisation of management has increasingly been identified as a key change required for successful founder succession.** The willingness to hand over increasing control to competent managers is the hallmark of a business environment in which succession is successful (Venter, 2006). Businesses that successfully navigate versions of this transition on multiple occasions through its lifecycle with increasing responsibility being passed on to others show greater resilience when ownership succession occurs.



## Professionalisation Background

*The development of structured capacity growing systems through the professionalisation in SMEs can lead to growth potential that is unattainable under outdated organisational structures.*

**At the heart of the challenge to professionalise SMEs is the choice between wealth and control.** Professor Wasserman (2008) of Harvard Business School, calls this the *Founders Dilemma*. To amass greater wealth, one must pursue growth, and the subsequent rise in complexity necessitates a greater sharing of responsibilities.

Kaehr Serra (2019) describes the dilemma as the challenge of professionalising entrepreneurial firms and suggests three change levers that help businesses to successfully cross the threshold:

1. **Change readiness activation** - whether owners have communicated with and given opportunity to people within the business as part of the plan.
2. **Shared pathway creation** - the extent to which internal stakeholders have been empowered with responsibility as part of laying a foundation for succession.
3. **Founder legacy fairness** - how incoming leadership addresses and manages the sense of value that has been established within the existing organisational systems.

**The development of strong and competent management is a key driver to mitigate the real (and felt) risks of increasingly ceding control to others in a business.** Successful succession strategies typically require both buying and developing talent (Hills, 2009). While developing talent internally is often much cheaper, it requires a level of critical reflection and sense-making that is often absent in the development of managers in SMEs. Involving founders and managers in more formal development systems allows for both to gain confidence in focussing on their strengths.

**Learning opportunities for employees that report directly to owners are limited when owners maintain too high control. In this environment the entrenched systems and culture prevent managers from applying learnings to scenarios that offer opportunity to grow the business.** The *Learning Dilemma* (Tell, 2013) recognises the rich opportunity in SMEs for management development that is often lost. Tell observes that managers (particularly in lean SMEs) are seldom given the support to learn from their experiences because they are continuously reacting to problems. This in turn limits their creativity and innovation by reinforcing reactive managerial

practices. These reactive managerial practices that are typical of entrepreneurial ventures do not foster the personal development required to navigate the challenges of growth.

**The Founders Dilemma can be viewed as a tension between entrepreneurship and professional leadership.** The process of professionalization of management should be interpreted as a reduction in the level of control that founders were able to maintain during start-up periods. While this may seem unattractive to founding owners, the growth and success of search funds over the last decade (Kolarova et al., 2020) indicates that there is untapped potential in stable SMEs that have failed to professionalise.

Search funds are investment vehicles that target stable SMEs that have not yet undergone professionalization. These funds are typically formed by entrepreneurs or investors, known as "searchers", who actively seek out and acquire businesses with growth potential. Search funds aim to bridge the gap between the entrepreneurial spirit of founders and the need for professional management, recognizing the untapped potential in SMEs that may benefit from experienced leadership to unlock further growth and success.

## Entrepreneurship Background

*Key entrepreneurial attitudes focussed on innovation and development are required for entrepreneurship to have a positive impact on the economy – with likely benefits to society.*

**The value of entrepreneurial intent in a SME is the ability to quickly react to and take advantage of new opportunities or innovations.** While we will not seek to precisely define entrepreneurship, it is commonly accepted that it occurs at the intersection of enterprising individuals and lucrative opportunities (Venkataraman, 2000). This nature of entrepreneurship has proven to researchers for over a century that it can be the basis for innovation and creativity that continues to reveal opportunities (Dobson et al, 2020).

The narrow governance structure in smaller SMEs can often aid the identification and pursuit of these opportunities (Gedajlovic 2004). These advantages are even more pronounced in places like South Africa that experience rapidly changing or unstable environments as well as regular shortages of key resources. The ecosystem is there for SMEs to thrive, but a growing economy is also required to motivate entrepreneurial intent – is the opportunity lucrative enough in this economy?

**Productive Entrepreneurship does not automatically trigger economic growth in developing countries.** While it is historically acknowledged that entrepreneurship is a driver of economic development, many scholars have begun to argue that this is not the case in developing countries (Sautet, 2013). Productive Entrepreneurship – *growing the pie* – is supposed to contribute to societal well-being, including the addition of new production processes and products (Lucas, 2017). The puzzle that productive entrepreneurship does not result in economic growth in developing countries may be due to the relative lack of high wealth-creating activities and growth-focussed businesses in these ecosystems (Dutta, 2023).

**“Entrepreneurial activity, in and of itself, is not sufficient to promote economic growth. Positive entrepreneurial attitudes and aspirations in a country are more important” (Doran et al., 2018).** Sautet differentiates between *systemic* and *local* productive entrepreneurship. The former grows by leveraging its entrepreneurial advantage across a larger ecosystem than it typically operates. The latter is locally focussed and shares many characteristics of necessity entrepreneurship. Doran et al. describes necessity

entrepreneurship as lacking the entrepreneurial attitude and aspiration. These ‘entrepreneurs’ are simply doing something that they are capable of for the sake of looking after their family’s needs.

**SMEs without succession are trapped between their entrepreneurial roots and unrealised growth opportunities.** While SMEs can enjoy many advantages in pursuing entrepreneurial activities, there is an opportunity cost associated with relying heavily on a founder’s abilities or the organisational capabilities that developed in exploiting a particular opportunity (Gedajlovic, 2004). SMEs must adapt their organisational framework to include a broader talent pool with a focus on capacity to grow. Haeussler (2019) shows for example how new investors can bring growth capabilities while freeing founders to focus on finding or developing new opportunities to exploit. Conversely, if the founder does not expand the talent pool, then they run the risk of getting trapped in a form of organisational necessity entrepreneurship. They will default to activities that fit the organisational capabilities that are built around the capabilities of the founder. Eventually only seeking out the opportunities that they require to maintain what they have.



## Inclusive Innovation Background

*The introduction of narrative sharing and inclusive innovation has the potential to revolutionise business and even society through co-created solutions to succession problems.*

**A lack of entrepreneurial intent to innovate or adapt to grow beyond a certain threshold does not contribute to economic development.** Necessity entrepreneurship is one way that this has been explored and is particularly prevalent in developing economies, where economic development is of great importance (Dobson et al, 2020).

The pursuit of profit by individuals and businesses in a free market helps allocate resources efficiently and leads to the best outcomes for society (Smith, 1776). The type of profit drive envisaged by Smith was one that promoted innovation and growth, not merely to meet one's needs (Doran et al, 2018).

**Inclusive Innovation helps identify the narratives that are held by various stakeholders that may stifle this form of entrepreneurial intent.** Inclusive innovation seeks to include multiple stakeholders in the development and implementation of innovations. Three different inclusive innovation narratives were identified by Opola et al. (2021). They are Bottom-of-the-pyramid, Grassroots, and Political Economy. Each one of

these narratives consider where the decision-making power (and responsibility) lies between either private or public sectors, as well as internally or externally developed initiatives. As innovative solutions to succession plans are developed, it must be recognised that the implications extend far wider than those that are normally party to the discussions.

**Social Innovation that includes input from those who are expected to be impacted by the innovation is often far more impactful to society – this would also be true for the social context of a business.** While it stands to reason that since the business owner is the primary decision maker, their own inclusion narrative in relation to these theories is important. Yet, in the context of succession planning, as we have explored it, reveals that each stakeholder's perspective is important due to their different conceptualisation of power and responsibility they have when it comes to innovation that will affect them.

Heeks' (2013) ladder of inclusive innovation identifies different levels of inclusive innovation based on the extent to which those

that are intended to benefit from the innovation are involved in the development of the innovation. While a stakeholder impact process falls outside of the scope of this research, it is recognised that active stakeholder involvement forms a significant part in a successful succession plan.

I'm looking to establish the foundation or framework for succession plans that cater for growth through professionalization while maintaining an attitude that continues to pursue innovation and opportunity through entrepreneurship – opportunity for all to participate and benefit (free market should be continually encouraging innovation).

**Co-creation is a collaborative form of innovation that seeks include diverse parties that would often not be included from the earliest stages of development processes.** While co-creation was originally used as a mechanism to include customers in the development process of new products, it is increasingly being applied to a diverse range of developmental practices. As has become evident in this review,

## Overview of methodology

### *RESEARCH APPROACH*

A qualitative research approach was followed to gain deeper insight into the attitude and perspectives of business owners towards succession planning within their own business. Inductive reasoning was utilized to determine shared attitudes and perspectives on succession planning so that general proposals could be made to address the challenges or risks that they faced.

### *SAMPLING STRATEGY*

A total of 10 interviews with owners of SMEs were conducted, with a further 2 interviews conducted with sell-side consultants with extensive experience in dealing with owners and their succession plans. Purposeful sampling was utilised to focus the selection on SME owners that were currently in a stage of life that succession planning had become important. Various other factors were considered so that insights gained were relevant to succession planning research that focused on aspects such as owner-manager relationships, developing economies, and high perceived power-distance. The purpose of this combination was to incorporate an

understanding of the attitude of owners towards internal stakeholders that may not typically have felt that they could participate in the process of making significant decisions within the business. Various companies in the same business park that bordered an informal settlement as well as a high-income neighbourhood were approached so that there was some degree of shared external stakeholder awareness between respondents. The manufacturing industry was also selected because of the high level of employment that is at risk from succession failure - as well as employment development opportunity if growth solutions are found. Preference was given to companies owned by individuals over the age of 50 according to CIPC records as the topic was expected to be more relevant to this demographic.

### *GATHERING DATA*

Qualitative interviews were conducted with SME owners. The interviews were focused on better understanding their experience and attitude towards succession planning in their business, including some of the factors that

were important to them in relation to social impact.

### *DATA ANALYSIS*

Interviews were transcribed, and perspectives and attitudes of respondents were evaluated using grounded theory. Comments were grouped by theme to determine where there was common understanding or perspective between respondents so that appropriate areas of academic research could be utilised to gain deeper insight into their experience. Insights that indicated potential opportunities for impact were assessed against business practice as well as social innovation literature to suggest avenues that business owners should explore as part of establishing impactful succession plans.

### *ETHICAL CONSIDERATIONS*

Interviewee's informed consent was obtained verbally and recorded at the start of each interview. Interviewees acknowledged that information was shared confidentially according to the UCT Ethics guidelines, while transcriptions were anonymized for coding purposes.

## Findings

*This table below summarises key points from the background sections that form the basis for integration between interview insights and the findings of the research. The findings that follow highlight the potential negative impact of owners retaining control in forms that stifle the development of various internal (or even external) stakeholders. The form of entrepreneurship that appears to develop in these contexts is also highlighted as not fostering broader economic growth. Inclusive innovation can however be utilised to develop effective succession plans that also positively impact society.*

	Challenge or Risk	Initial Insight	Concept to Leverage	Direction for Integration
Succession	The lack of succession planning rooted in maintaining founder control poses the greatest risk for SMEs that survive the start-up period.	Growth opportunities are missed when owners retain too much of the control that formed the foundation of their early success.	Scaling a business through growth requires a structure and culture that allows distributed responsibility.	Professionalisation of management has increasingly been identified as a key change required for successful founder succession.
Professionalisation	At the heart of the challenge to professionalise SMEs is the choice between wealth and control.	The development of strong and competent management is a key driver to mitigate the real (and felt) risks of increasingly ceding control to others in a business.	Learning opportunities for employees that report directly to owners are limited when owners maintain too high control. In this environment the entrenched systems and culture prevent managers from applying learnings to scenarios that offer opportunity to grow the business.	The Founders Dilemma can be viewed as a tension between entrepreneurship and professional leadership.
Entrepreneurship	The value of entrepreneurial intent in a SME is the ability to quickly react to and take advantage of new opportunities or innovations.	Productive Entrepreneurship does not automatically trigger economic growth in developing countries.	“Entrepreneurial activity, in and of itself, is not sufficient to promote economic growth. Positive entrepreneurial attitudes and aspirations in a country are more important” (Doran et al., 2018).	SMEs without succession are trapped between their entrepreneurial roots and unrealised growth opportunities.
Inclusive Innovation	A lack of entrepreneurial intent to innovate or adapt to grow beyond a certain threshold does not contribute to economic development.	Inclusive Innovation helps identify the narratives that are held by various stakeholders that may stifle this form of entrepreneurial intent.	Social Innovation that includes input from those who are expected to be impacted by the innovation is often far more impactful to society – this would also be true for the social context of a business.	Co-creation is a collaborative form of innovation that seeks include diverse parties that would often not be included from the earliest stages of development processes.

*Founder owners of manufacturing SMEs are finding it increasingly difficult to develop a succession strategy that incorporates the development of the next generation of family members to run the business.*

**SME owners' sense of control impacts how they seek to include family in the succession plans. Owners struggling with family succession plans seem to be looking for someone from their family that can eventually take over doing what the owner does in the business.** This can be contrasted with owners that are not concerned about involving family members. Our interpretation is that the former are typically looking to secure the future of their business through people that they expect will be more loyal to them.

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*"I started looking at trying to make plans as to who was going to take over from me. So, I approached my one nephew..." – O-4*

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Successor *ability* and *intentions* have previously been identified as key variables for a successful succession plan. While a sense of family loyalty would at least initially automatically tick one of these boxes, ability needs to first be evaluated in the context of the business.

**SME owners that have not already developed a system of distributed managerial control or shared responsibility struggle to see the potential of the younger generation.** This is particularly true when the family member is being assessed against the role that the owner fills and expects a successor to replicate. This is well illustrated by O-6 who was able on the one hand to describe the talent and tenacity that his sons displayed, but also expressed regret about bringing them into the business.

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*"It's possibly one of the worst decisions I've taken bringing those two [sons] into the business." – O-6*

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**An expanded talent pool of younger leaders in an SME increases the business' capacity to pursue growth.** Owners focussed on family succession are struggling to allow their businesses to evolve into an organisational structure where family members (and staff) can focus on their areas of strength with shared responsibility. The following scenario illustrates a common narrative with regards to this difficulty which highlights a lack of shared understanding between the two generations: Owners typically have a low perception of younger family members' competence and sometimes even their development potential, yet the owners often also reference how much they have learnt on the job over the years, noting that the younger generation does not have the same experience.

Understanding and placing the interests and developmental aspirations of the next generation is important and may result in strategically pursuing a succession that does not involve family in running the business.

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*"I have a son and I believe he's going to be very successful in his profession and whether he takes over the succession of [COMPANY] only time will tell." – O-1*

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It was also noted that no owners offered insight into affording other employees with similar opportunities that they had extended to family members, often citing gaps in knowledge, perceived capability, or the lack of employee motivation or intent.

*Founder owners of manufacturing SMEs do not think of empowering employees or sharing responsibility as part of a succession strategy.*

**Owners still maintain control over key decisions, even in operational areas that are typically routine or can be managed by standardised procedures.** Discussions were focussed on SMEs in the size range where owners relied on managers for certain administrative or operational roles. These businesses were successful and stable, yet owners still felt the need (to varying degrees) to maintain control over key decisions - even in these standardised areas of the business.

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*"She's been running the show here for the last four-five years in conjunction with myself. Every decision comes past me." – O-6*

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**The size of the business does not appear to be the primary barrier to establishing some form of shared responsibility, as it occurs in all business that face succession problems.** While business selection was focused on businesses big enough to have owner-manager relationships, some insight was also gained from interviews about how these types of relationships are experienced at larger and smaller firms. There seemed to be a similar pattern across all these firms when it came to sharing responsibility:

- Owners in small firms struggled to release administrative and operational oversight to managers.
- Owners in larger firms struggled to establish responsibility paired with accountability systems for managers.
- Owners in large firms struggled to entrust an executive team with key decisions.

**Our observation from our interviews, and in the context of academic literature on succession planning and professionalisation, is that it is the excessive retaining of responsibility at each threshold level that creates a succession risk for SME manufacturers.**

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*"I've seen a lot of people age in their businesses and eventually sell them. Some of them went into their 80s, some died at their desks, some sold. And their businesses, some of them fizzled out, some of them just got absorbed." – C-12*

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Owners having interests outside of the business was an aspect of succession planning that was excluded from our literature review. This is because it was shown to have no direct impact on whether a succession plan may be successful or not. It has however been observed that outside interests do increase an owner's willingness to hand over responsibility (and even ownership) in the business. The owner's willingness to hand over responsibility does have a direct impact on the success of their succession plans (Venter et al, 2006). This dilemma was captured beautifully by one of the interviewees:

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*"The fear of sitting around at home with nothing to do outweighs the financial gain of selling my business."*  
O-10

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*Founder owners that are still key decision makers acknowledge that they increasingly tend to prioritise stability over and above growth in their business as they get older.*

**All owners that were actively involved in some form of day-to-day function in the business acknowledged that they had become less concerned with actively pursuing growth opportunities as they got older.** Reasons varied, but most owners over 55 also acknowledged that to some extent the success of the business was no longer critical to their personal financial wellbeing because they had been able to diversify their investments into other areas like property or retirement annuities.

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*"I've seen a lot of the older business guys, there's a wide-open goal of opportunity in front of them and they say I just don't need the stress at this time in my life, I am quite happy with what I'm doing." - C-5*

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Integrating the Founders Dilemma perspective into the apparent limited professional development of the next generation and reduced pursuit of growth within manufacturing SMEs highlights what could become a catastrophic problem in South Africa.

**SME owners that lack entrepreneurial intent but also hold the reins preventing the next generation to build on their success run the risk of acting like necessity entrepreneurs in our developing economy.** Simply doing what is necessary to get by does not stimulate economic growth in all economies. It remains to be shown in studies whether this applies to wealthier populations in developing economies. It is however important to consider the role of competition and free market in the ecosystem in which entrepreneurial activity stimulates economic growth. It stands to reason that well established and stable businesses in a developing

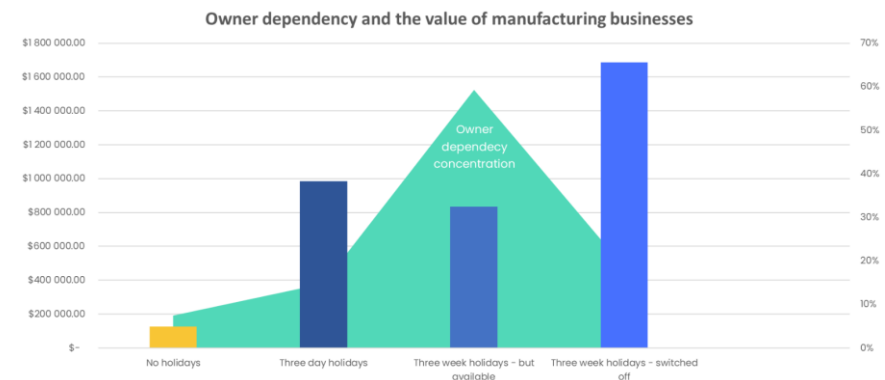
economy face a lower level of risk from competition due to the higher socioeconomic barriers to entry in the market. SME owners have made comments that reveal a variety of reasons that are used to have confidence of maintaining the stability that they achieved, for example:

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*"If ... I didn't have a faith to rely on, I certainly would continue striving and pushing for that growth. But ... I am relaxed about it and what does help is that my retirement plans have been taken care of." - O-1*

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The following graph shared by C-5 after our interview displays owner dependency (green triangle) measured by the ease with which they can take a holiday. While not empirical, it is interesting to note the relative impact on company value when an owner is potentially only partially involved (having less intent than when they were growing business value) but required to be available for the business to function.





*Founding owners have very little interest in Sustainable Development Goals (SDGs) in the context of running their business, yet their personal attitude toward legacy and impact and the need for effective succession plans indicate the potential for impactful economic development by applying inclusive innovation to their succession development.*

There was a resounding disinterest from a business point of view around concepts like SDGs and CSR, while owners did acknowledge their personal recognition of the importance of society and the environment when asked. Views on legacy in relation to their businesses were very divergent, yet often seemed to be reserved for securing some sort of stability for family members. It must be noted that the owners' focus was more on seeing whether family members could keep the business going, rather than securing generational wealth independent of family involvement with the business. Otherwise, low-level skill development or financial incentives for employees were the only initiatives that considered impactful outside of stable employment.

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*"I can make someone's life better. Obviously, they start off here at rock bottom and they will get some help. We only promote from within unless you cannot get there."*

– O-3

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While our interview guide didn't seek to explore this disinterest in impact as framed by SDG's and similar concepts, the general attitude of owners toward policy and red tape indicated that these concepts would be treated with similar contempt. The shared narrative of business owners towards these concepts underlines their perspective that they are not pragmatic.

Yet there exists in their business the potential to significantly impact Goal 9 of Agenda 2030 of the United Nations SDGs through growth initiatives that foster the development of people. This can be achieved without compromising on running their business according to sound economic principles. The barriers observed that would undermine motivation to contribute to this goal are the narratives that the owners perpetuate. One narrative about future possibilities is exemplified by what one owner would suggest to his daughter about her inheritance:

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*"If [Daughter] is in line to inherit money from the sale of a business and the economy's plummeting, then she should rather take the money and invest it overseas in a safe environment."* – O-2

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Another narrative is about the perceived potential and intent of employees. Typically, lower end workers in manufacturing businesses are not only perceived to aspire to much but are also not encouraged to aspire to much. This is likely due to systemic issues that fall beyond the scope of this paper, but the issues that are faced by these individuals and their families will remain entrenched longer than should be the case is a society that seeks economic growth and development through competitive and free markets. It is the view of the author that this is possible through deeper engagement with, and courageous application of initiatives towards this goal.

## Recommendations

*The recommendations of this study focus on why inclusive innovation can be used to bridge the gap between business owners and stakeholders in a way that solves the succession planning problems that may also result in positive benefit for everyone involved.*

**SME Owners should engage with succession planning professionals long before they think they will need to have succession in place.**

**Succession is built on the capacity and capability of people within the business, their development and the work culture in which that happens is a key determinant of success. This cannot be established at the end of the exiting owners 'life cycle'.**

**Whether only family members are given opportunity in succession plans, or broader stakeholders are also incorporated into succession plans, deeper engagement from the onset is required to best understand each person's narrative for their own development.**

**Partnerships with Universities or research students should be explored to conduct rigorous research into the plans that are developed so that insights can be leveraged for increasing positive social impact.**

**All these recommendations will be strengthened by owners that are capable to having open and engaging discussions with co-creators that can bring valuable insights and perspectives. Even experienced business owners will require assistance with this in our socio-economic environment.**

**While this study was focussed on manufacturing SMEs in South Africa for various reasons. We also recommend that business owners in other industries and emerging or developing economies consider the applicability of the findings and potential of applying these recommendations in their context.**

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## Annexures

*Personal note to the reader on the authors journey to motivate business leaders rediscover ways of doing business that have a credibly positive impact on society.*

I was at a corporate event that was being hosted by a large consulting firm earlier this year. We were told a story about how the audience at an entrepreneurship conference was asked to stand if they considered themselves to be an entrepreneur – as expected most of the people in the room stood up. They were then told that if their venture could continue running without them that they should sit down, and of everyone standing in the room, only one person sat down. The speaker then declared that everyone that was still standing was not an entrepreneur, but rather that they were simply self-employed.

I had spent half of my life working with a variety of SME business owners that had founded their businesses 20 to 40 years previously. I had seen them as successful entrepreneurs but was being told that they

were in fact simply self-employed. Take a moment to let that sink in - and don't shoot the messenger; I'm only relaying my experience to contextualise what has become a study to understand succession planning in SME's.

While I share reservations that mumbo jumbo definition (typical of consulting firms) may not be a technically accurate view of entrepreneurship, it did raise a philosophical perspective on entrepreneurship that has stuck with me. As I hope will become clear, this study highlights the importance of fostering an attitude towards entrepreneurship that will that has the potential to positively impact South African society.

I began to wonder, what is the *point* of entrepreneurship? As a good capitalist, found

insight from Adam Smith (1776) that resonated with me. In his seminal work *The Wealth of Nations*, Smith presents the concept of the *invisible hand* as the idea that individuals pursuing their own self-interest in competitive markets unintentionally contribute to the overall well-being of society. He suggests that the pursuit of profit by individuals and businesses in a free market helps allocate resources efficiently and leads to the best outcomes for society.

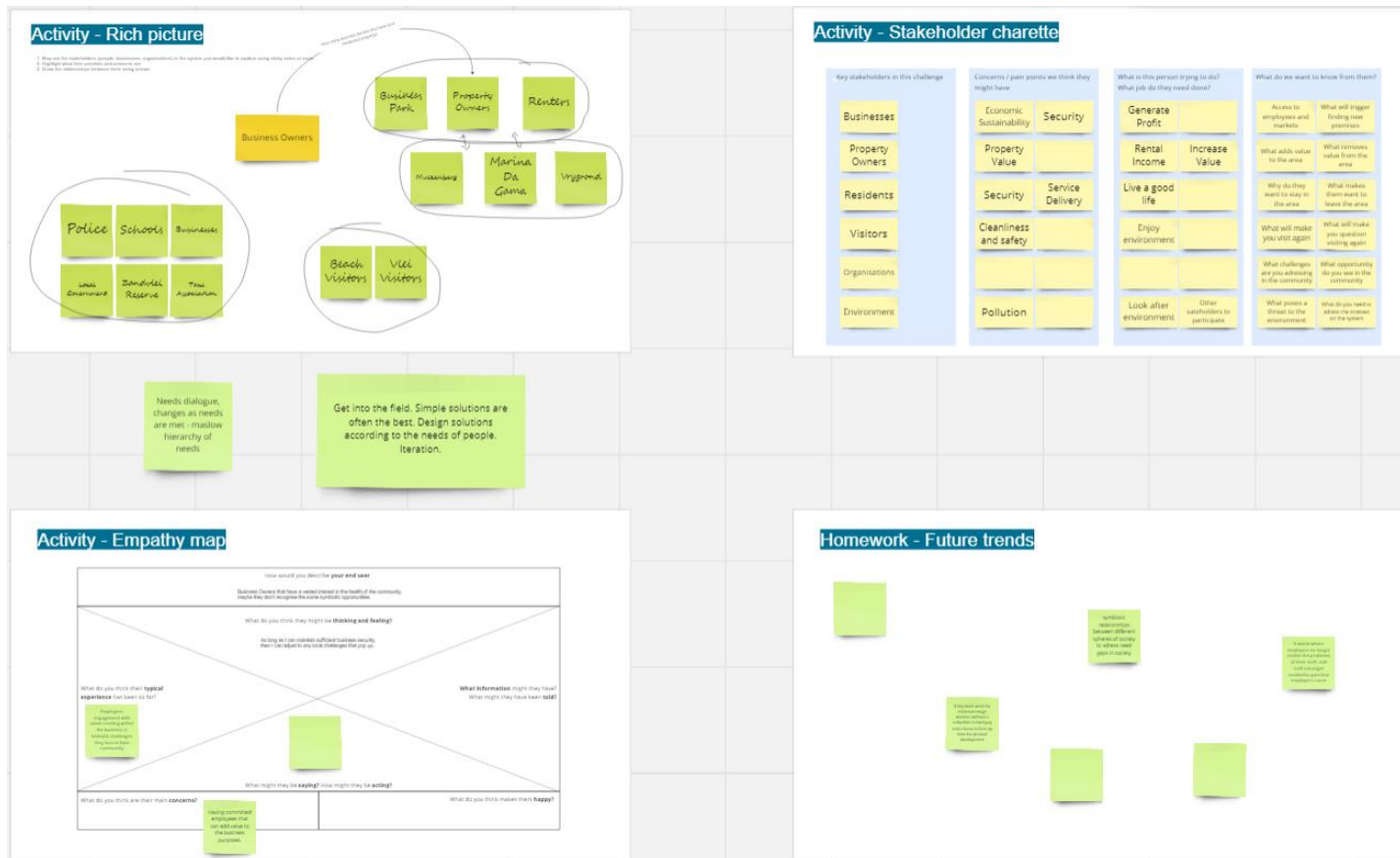
In theory, competitive markets should increase market efficiency, which drives innovation and development. This requires a free market where all people have equal opportunity to fully participate in and benefit from the thriving economic environment. South Africa experiences deeply entrenched systemic issues that make it extremely challenging

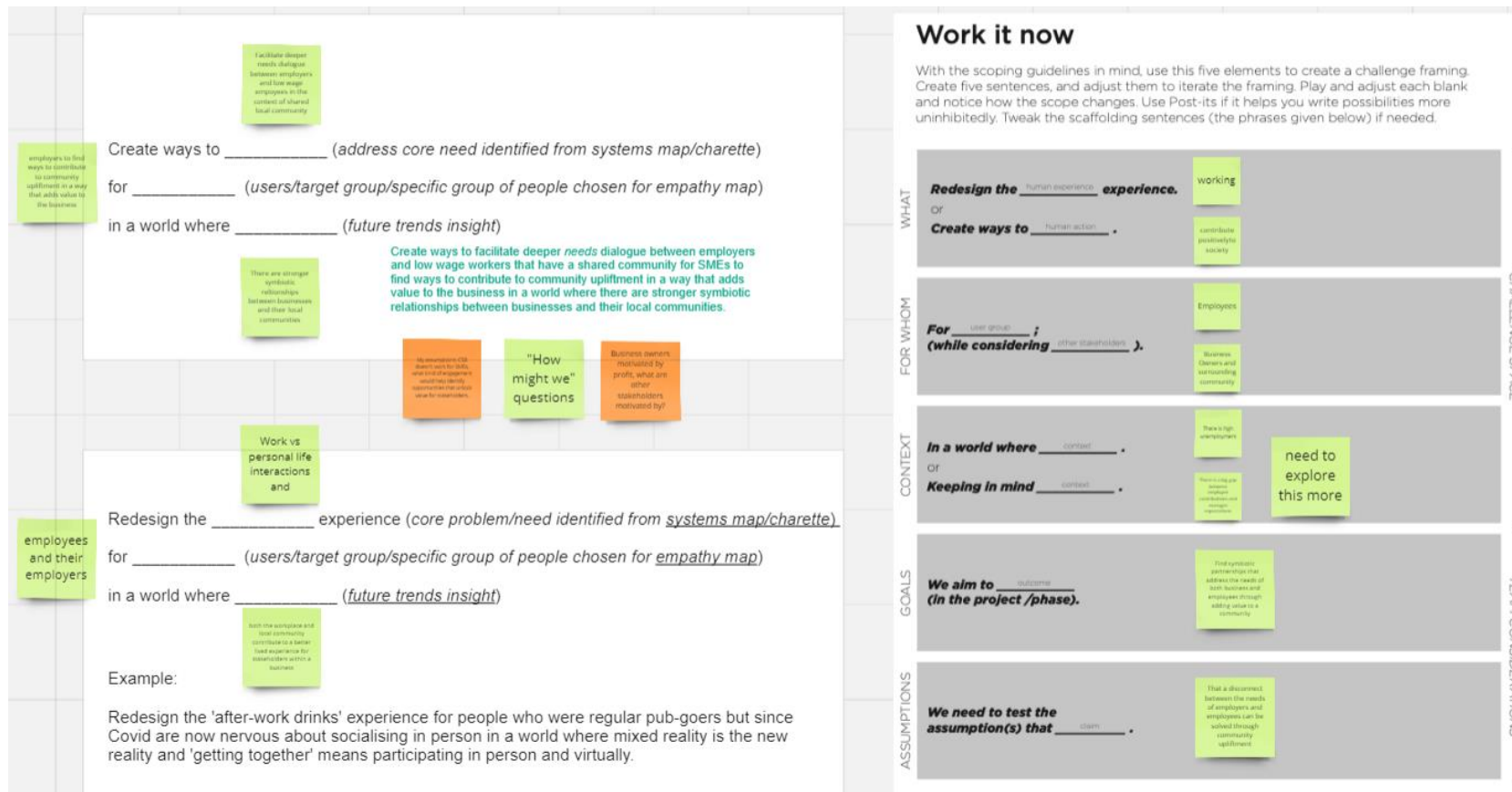
***THIS PAPER SEEKS TO INSPIRE ROBUST DISCUSSIONS AROUND THE OPPORTUNITY THAT SUCCESSION PLANNING IN SME'S PRESENTS TO POSITIVELY IMPACT SOCIETY AND HOPES TO TRIGGER A DEEPER LEVEL OF INTROSPECTION THAT OPENS THE DOOR FOR INTERACTIONS THAT HEAL OUR FRACTURED SOCIETY.***



## Methodology Annexure

Early in the research process Design Thinking was used to identify where to focus the research on the need for succession planning in South African SME's, with a particular focus on their perceived importance in economic growth and the extent to which they positively impact on society. The following figures illustrate some of the process that led to the recognition of the importance of the SME owner as the key individual in this question as well as the need to understand how they engage with their businesses value to other stakeholders and the ecosystem in which they operate.





The following interview guide questions were developed from insights gained through the design process thinking, preliminary discussions with SME owners, as well as academic literature about succession planning and social innovation.

## *Interview Guideline Questions*

### Introductory Questions:

- Can you give me a short introduction into the business you started, and what motivated you to start it.
- Would you consider your business to be in a relatively stable position now, and what are the economics on which you base your perspective?

### Questions about decision making:

- What are the three main factors that you consider when making significant business decisions in this stage of your life?
- How might those factors have been different if your business was in the position, it is now when you were 20 years younger?
- When last did you implement what you considered innovative that had a positive result in your business, and did it also have what you consider to be a positive outside of business success?

### Questions about the future:

- Do you have a Succession / exit plan?
- How is your attitude to risk impacted by this plan?
- How do you feel about your business legacy?

### Questions about stakeholders:

- In what ways do you place trust and confidence in someone that might take over running your business?
- Who are the people that would be most affected if something happened to you, and you could no longer run your business?
- What would be the difficulties in including these people in discussions about your succession planning?

### *Key themes and supporting Quotes.*

Theme	Person	Quote
Control	C-5	"The founder... was not an operator... He found it very hard to accept that what that business needed then... was actually an operator, not him."
Control	C-5	"Those businesses often very difficult to sell for that precise reason because they haven't built the management structures."
Control	O-4	"Trying to give people space, they can run the place, but at what point you step back, how much school fees are you prepared to pay?"
Control	O-10	"The fear of sitting around at home with nothing to do outweighs the financial gain of selling my business."
Control	O-1	"If I lacked my faith, and I didn't have a faith to rely on, I certainly would continue striving and pushing for that growth. But due to the fact that I am relaxed about it and what does help is that my retirement plans have been taken care of."
Family	C-5	"The family politics and the family involved, and they say you can't sell the business because [John] and his family are reliant on the business."
Family	C-12	"We've got quite a few of those kind of family-owned businesses where... there's no way there's a family successor in the mix."
Family	O-4	"I started looking at trying to make plans as to who was going to take over from me. So, I approached my one nephew..." -
Family	C-5	"There's no doubt that there's a there's a lack of you know family succession around in South Africa at the moment."
Family	O-6	"The most disappointing thing to me that's come out of this is the sense of self entitlement that both of my lighties have got. They just expect."
Family	O-3	"Don't employ family and their friends... It would be nice if the business carried on. If no one buys the business you close it."
Family	O-1	"I have a son and I believe he's going to be very successful in his profession and whether he takes over the succession of [COMPANY] only time will tell."
Society	C-12	"There be problems and we generally selling them to people with much more integrity around SDG or for black owned you know entities and yeah much more commitment to that kind of stuff than the current owners have."
Society	C-5	"They run a farm, and they sell produce... Their thinking is not about how do we get better yields from the cows, their thinking is much more how do we build the brand which is ethical and sustainable and perceived as being all those things?"

Society	O-1	"Legacy is one thing, but you can't hold back progress and if somebody can build off what we have managed to achieve in terms of a better product...the product and how it delivers its benefits to the customer is what really speaks into all of this."
Society	O-3	"Recycling is one thing, taking waste and rubbish out of the oceans... On the back end of that is let's uplift some people that need it."
Society	O-2	"If [Daughter] is in line to inherit money from the sale of a business and the economy's plummeting, then she should rather take the money and invest it overseas in a safe environment."
Innovation	O-3	"There's so much [raw product] and this product does work... When someone comes with innovation that replaces this... the business will adapt accordingly."
Innovation	C-5	"The next generation is always thinking about where's the next opportunity. Whether it's overseas manufacturing... they realize they have to keep evolving."
Innovation	O-3	"You plan and change a few jigs... We moved a few holes around and you innovate."
Innovation	O-2	"Legislation was also proving to be a pain. So, I had to make a choice. I'm very happy with the choice. It wasn't quite innovation."
Innovation	O-4	"I have always been fairly conservative with business decisions regarding the type of work that we will do. If I feel it's a job that we're not really geared for, I don't want to get involved."
Stability vs Growth	O-5	"They run the businesses a lot meaner, leaner, the focus is a lot more on growth as opposed to stability and sustainability... Whereas the next generation are always thinking about where's the next opportunity?"
Stability vs Growth	O-2	"It's a different decision to if you were living in, say, New York City, where you'd be happy to have multiple generations taking over a business, happy to just keep passing it on from generation to generation because you've got that stability."
Stability vs Growth	C-12	"The natural, the immediate successor from a risk point of view is the finance guy... not necessarily a growth point of view but certainly from a risk point of view."
Stability vs Growth	O-4	"I do have a conservative approach; I don't take a lot of risk... there's a level of security now that you didn't have 20 years ago... it's just the stability of the business."
Stability vs Growth	O-6	"As I've got older now, that is 30 years older, I'm looking at scaling back. I'm standing back."