Succession Planning and Its Impact on the Performance of Small Micro Medium Enterprises within the Manufacturing Sector in Johannesburg

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Abstract

Succession planning is a major problem within Small, Micro and Medium Enterprises (SMMEs). The literature shows that although most of these entities are run by their founders or by a small management team and very few such operators have in place proper succession planning. The lack of proper succession planning can have the direct effect of causing the collapse of these businesses especially when key players leave the business upon retirement or in pursuit of other options. The exit or exodus of key stakeholders can make a business vulnerable and diminish its worth as investors will not invest in a business that is not sustainable. Succession planning was identified as one of the most pressing issue for SMME's within the corporate governance sphere. This was therefore investigated by means of survey that was done in order to take up this study. The intent was to ascertain what the current status is within the manufacturing sector in the Johannesburg region. A combination of qualitative and quantitative methodology was applied to get responses from 15 companies out of a total of 30.The study found that there was a gap between perceived and actual status of succession planning in the SMMEs studied and there is major room for improvement in this area. Further these SMMEs did not put plans in place to groom, train and develop top managers. The study found that there was no preference to recruiting from outside versus developing inside talent in preparation for succession planning. The findings also suggest that most stakeholders agreed that good succession planning can add value to SMME's and they become more sustainable. It is evident from this study that the manufacturing sector has not changed from those recorded in earlier studies. The conclusion from this study served as a wakeup call to the SMMEs which took part.

Keywords: succession planning, SMMEs, South Africa, manufacturing

1. Introduction

Small, Micro, and Medium Enterprises (SMME'S) is a greatly underutilised sector to support sustainability within communities. Entrepreneurs who are mostly the initiators of SMME's are action-oriented individuals who enjoy challenges and act upon environmental feedback, making them ideal change agents. However, there is a lack of tools specifically targeted towards SMME's to help them act strategically towards sustainability and good governance (McElroy, 2008).

In most countries, entrepreneurial firms do not have to comply with corporate governance codes but it has been argued that such codes should also apply to these SMME's. Since corporate governance forms the environment for the internal control of activities of a company so the appropriate environmental conditions are crucial for corporate entrepreneurship to flourish in a company, it is appropriate then that these two topics are discussed in relation with each other. Corporate governance mechanisms may dampen value creation in firms if appropriate measures are mandated by the regulators (Tan and Tan, 2005).

It is also true that rules, norms and best practice will somehow magically trickle down to SMME's, but neither resources or practical guidance are offered for multi-tasking managers of SMME's. It is only by default that the system of corporate governance takes into account the interests of SMME's (Clark, 2006)

SMME's however are oblivious to some of these factors and are not forced to implement governance principles. As a result and may have little or no corporate governance policies. Many companies do not plan for what will happen if stakeholders and managers resign, pass away or lose interest. This makes succession planning of utmost importance within SMME's as these entities do not have the resources to fall back on like those in larger companies. SMME's will add value to their businesses by making them sustainable in the long run, and ensuring longevity.

The motivation for the study that was done is to illustrate that principle of good corporate governance can help SMME's to be sustainable and prosper. As a result of a small survey (conducted prior to taking up this study) of the different variables associated with corporate governance, succession planning emerged as the most pressing issue related to corporate governance within SMME's. The main aim of this study was to establish the status of succession planning in selected SMME's in Johannesburg area, to understand the attitude of managers towards succession planning and further to identify the impact of succession planning on the SMME's studied.

2. Literature Review

2.1 Succession Planning within SMMEs

There is no universally accepted definition for small business. What is regarded in the US as a small business by definition would often be regarded as a medium sized business elsewhere in the world. Small business definitions differ vastly in smaller countries like New Zealand and South Africa to their bigger counterparts in the United States (US) and the European Union (EU). The detailed approach followed by the South African Small Business Act of 1996 is used within this study. It uses the number of employees (the most common mode of definition) per enterprise size category combined with the annual turnover categories, the gross assets (excluding fixed property) and differentiates these according to sub-sectors. Table 1 details the classification followed in South Africa.

Table1. SMME classification within the manufacturing industry (Adapted from The Small Business Act of 1996)

Size/Class	Employees (less than)	Annual Turnover limit in R million	Gross Assets (Excluding fixed property in R Million)
Medium	100	40	15
Small	50	10	3.7
Very Small	10	4	1.5
Micro	5	0.15	0.01

Based on the literature study and previous researches that are conducted on the topic of corporate governance, the following five issues within the corporate governance sphere are identified.

a) Executive remuneration and control (Agency Theory) -- to counter the agency effect business owners must remunerate executives adequately to keep their best interests at heart.

b) Ethics -- Organisations should operate in an ethical responsible manner to better relationships and trust.

c) Risk Management (RM) – Risk should be taken into consideration if organisations are to become sustainable.

d) Succession Planning (SP) – Companies should ensure that they have proper succession plans to ensure that they subsist.

e) Corporate Social Responsibility (CSR) – All companies should contribute to the social good of the communities that they operate in.

In this study the process that was followed to identify the most important issue was to make a survey of ten (10) SMME's and to let their top managers rank the identified issues, so that the most pressing issue could be identified. Out of the five (5) issues that were highlighted, succession planning stood out from the survey and proved to be the major issue related to corporate governance within SMMEs and its accompanying performance. Hence the section below deals with the literature on succession planning.

2.1.1 Literature Review on Succession Planning

Succession planning is a deliberate and systematic effort by an organisation to ensure leadership continuity in key positions, retain and develop intellectual and knowledge capital for the future, and encourage individual advancement (Rothwell, 2001). Succession planning can also be defined as, a process which ensures the continued effective performance of an organisation by establishing a process to develop and replace key staff over time (King, 2005). In this context succession planning encompasses not only top management but also a number of other factors. It can cover issues such as the procedures necessary for a successful transfer, legal and financial considerations, psychological factors, leadership development, and exit strategies (Ip & Jacobs, 2006).

Currently there are no research findings on the subject of SMME's and corporate governance within the manufacturing industry in South Africa. However research done on SMME family firms can be made applicable to this study as most SMMEs are family owned businesses and have all the applicable characteristics of SMMEs.

Bartholomeusz and Tanewski (2006), conducted research on 100 listed companies (evenly divided between family and non-family companies) and found that family owned organisations had a closer locus of control with little opportunity for external involvement. The practical implications of these findings according to them are that these family organisations should implement more transparent corporate governance structures and be subject to greater discipline from independent bodies. This then will maximize the company's value (Bartholomeusz and Tanewski, 2006).

Bocatto, Gispert & Rialp (2010), investigated 86 nonfinancial firms listed on the Spanish Stock Exchange, to observe how their pre-performance influenced the nomination of a family or a non-family member to top senior positions. The research showed that failure to provide succession was a primary cause for the demise of family owned businesses. As some of these firms did not get procure the necessary skills to grow and keep the business sustainable. It was shown that companies' owners are strong believers in their stewardship responsibility in the interest of continuity from generation to generation (Bocatto, Gispert, Rialp, 2010).

Abor and Biekpe (2007) conducted research in Ghana which focused on the corporate governance, ownership structure and performance of SMMEs and the financial gains that these SMMEs can make if they followed good corporate governance measures. Their finding was that corporate governance can greatly assist the SMME sector by infusing better management practices, stronger internal auditing, greater opportunities for growth and new strategic outlook through non-executive directors (Abor and Biekpe, 2007). The study sampled 120 firms (no particular industry) with less than hundred employees and found that SMMEs can improve performance by making use of good governance mechanisms as these governance mechanisms ensured that the board's interests are served. Investors and financial institutions are more reluctant to invest and give funding to organisations that have functioning corporate governance systems. By making use of proper accounting practises, internal control systems and adequate information disclosure, SMMEs are likely to control risk and increase confidence in them. And also to this will help the SMME sector grow and be sustainable (Abor and Biekpe, 2007).

Ip & Jacobs (2006) conducted an extensive literature search of business magazines, journals and relevant reports, aimed at reviewing business and academic literature on the topic of business succession planning. The purpose was to allow the vast quantity of evidence and opinions to be contextualised and to enable a better understanding of the key themes within business succession planning. They showed that there was a lack of research pertaining to the area of succession planning. It was established that succession planning requires continuous investment of time, resources and support by companies. Development and implementation of succession planning was also shown to simply raise the chances of success and not guarantee this. They also showed that succession planning is generally considered to be a unique case-by-case process, where a one size fits all mentality is simply not appropriate and that there is a wide variety of viewpoints. A general structure of succession planning was however identified, to assist SMME's in promoting continued survival and prosperity (IP & Jacobs, 2006).

Research on 3179 SMME businesses and their sustainability by Martin et al (2002) found that SMME's are vulnerable to succession failure, as their objectives relate to their owners. As most of these businesses are lifestyle business, they sometimes have reduced saleability as they relate to the owners agendas and personal needs. The managerial dependency of businesses upon their owners' knowledge, creative input and key customer relationships also puts these businesses at risk for succession failure. They also found that despite the fact that over 70% of SMME are family businesses, family succession is no longer an absolute definitive option as greater earning opportunities are now available to younger family members. Many owners do not start thinking about succession early on, and as a result there is a lack of proper development of managers (Martin et al, 2002).

Currently succession planning is a looming problem for companies as the baby boomer generation begins to retire, and as a result more businesses will experience the challenges of growing sustainable business (Mirel, 2006).

In referring to the non-financial side of planning for succession lies a major challenge, as owners need to decide whether they want to pass the business on to the family, sell it or let it die with them. Sometimes the very characteristics of SMME businesses can be their undoing in making such decisions (Newton, 1999).

2.2 Other Issues in Succession Planning

2.2.1 Succession Planning Methods

Succession planning can be done in two ways namely, utilising internal (developing talent) or acquiring external resources (buying in talent). There is no right or a wrong choice to make when deciding which route to take when implementing a succession plan. It will depend mainly on the availability of talent within the organisation.

Buying in talent entails that the company gets employees from the outside labour market. Buying in talent has its advantages and disadvantages, namely it keeps pace with changing market demands, companies acquire specialised skills, it brings in new ideas and fresh perspectives etc. Unfortunately it's expensive and the talent the company buys in is unproven.

On the other hand the company can choose to build their internal talent pool (developing talent). This helps development of people to the specific specifications of the company, save money on recruitment fees; enhance career mobility and engagement within the existing workforce, the company already knows the employee's attributions. However there is less opportunity for injecting new knowledge and energy into the company. Looking inward for future success can unlock undiscovered capabilities and talents of employees. These attributes may not have become apparent in their existing roles because of habit and complacency rather that a failure to invest in employee development (Seymour, 2008). Job rotation within a company can be used to lessen the skills shortfalls. There are huge savings to be made by offering coaching, mentoring or further job training to existing staff.

2.2.2 Failing to Prepare Is Preparing to Fail

As Seymour states, "the future performance of any company is reliant on the thoroughness and vigour of today's succession planning". He also goes further to illustrate that other companies will look at the succession plan when having an interest in acquiring or merging with the existing company (Seymour, 2008). The reality of the situation is that investors look at the quality of the next generation of management and its preparedness to propel the business to new heights. Having a competent and consistent management and workforce in place will give investors peace of mind and will afford the selling company more negotiating power. It will also influence the banks decision on the viability and the sustainability of the company. Having a good succession plan will most certainly increase the company's fiscal value (Seymour, 2008).

2.2.3 Diminishing Skills Pool (Skills Gap)

The American Society for Training & Development defines the skills gap as, "the point at which an organisation can no longer grow or remain competitive because it cannot fill critical jobs with employees who have the right knowledge, skills and abilities (Galagan, 2010). It is evident that organisations will always experience a skills gap if they do not stay ahead of shifting conditions in their environment and changing expectations from their constituents, shareholders or customers. An unprepared workforce can hamper the performance and growth of an organisation. (Galagan, 2010). Succession planning can greatly reduce the skills gap within companies as management can identify potential gaps and recruit or develop employees.

2.2.4 Analysis and Planning

Planning a good succession plan takes a lot of input and expertise. A good succession plan oversees the whole spectrum of the company, not just in the boardroom but also on the shop floor. The life cycle of a succession plan depends on the variables present in an organisation, as an example it takes critical staff around eight years to reach their maximum potential. So the target will be, five years away, depending on the training, induction, and garnering experience that will be required for the specific position (Hewitt, 2009). But when succession planning is done correctly and with foresight, succession planning ensures continuity of leadership and provides a solid foundation for the board, employees, and managers (Richtermeyer, 2011).

In conclusion, SMMEs can be defined in many deferent ways depending on their size and turnover, depending on the country that they operate in. Most of these definitions are regulated by legislation in South Africa. Corporate governance is also not legally enforceable on SMMEs; however implementing corporate governance principles can greatly improve a company's value and performance. Succession planning was identified as the most pressing issue, as SMME's do not possess the necessary resources that large enterprises has available to fill positions of importance, as they usually have limited staff, and more times than not SMME's do not have capable successors for top management positions. Succession planning is thus of significant importance as a lack of planning can have the effect that the small business will have a slump in turn-over or even closing of its doors.

3. Objectives of the Study

From the literature and small survey, succession planning was identified as a major problem within SMME companies as most of these entities are run by their founders or a small management team and do not implement proper succession planning. This lack of proper succession planning can have the effect that the business can seize to exist if a key person leaves the company. This can make a business vulnerable and also diminish its worth as investors will not invest in a business that is not sustainable. The need arose to investigate if good succession planning can improve a SMMEs sustainability and performance? With this background the following objectives were identified for this study.

Objective no. 1. To establish the status of succession planning in the selected SMME's in Johannesburg.

Objective no. 2. To assess the impact of succession planning in company's performance, value and sustainability.

The study was primarily focused on the perceptions of top management of SMME's in the manufacturing industry and the implementation of succession planning. The study targeted at a relatively small segment of operators in the manufacturing industry, but the scope and delimitation of the research were nonetheless sizable enough to be indicative of the industry concerned. The identified companies are confronted with the phenomenon on a daily basis and the information that was obtained from these respondents was relevant to the purpose of the research.

The limitation to the study is that not all top managers that were surveyed have the same type of knowledge pertaining to succession planning, as the questionnaire requires respondents to have some knowledge of succession planning.

4. Research Design

The study made use of a quantitative and qualitative research approach. Information for the quantitative study was acquired from the primary source, and the qualitative study was obtained from case studies. Objective number one was studied via a target group from the manufacturing industry in a quantitative study. Objective two was studied with the assistance of a qualitative case study methodology.

The following criterion was used in the sample selection to ensure that the sample used was representative of the population of SMME manufacturing companies in Johannesburg. The population consisted of thirty (30) companies within the steel and engineering manufacturing sector. The classification for these companies was to have a hundred (100) employees, an annual turnover limit of R 40 million and with gross assets of R 15 million. Companies were contacted telephonically in regards to availability for the research. Out of the 30 companies who agreed to participate in the research only 15 finally responded giving a response rate percentage of fifty (50%).

4.1 Research Questions and Hypotheses

4.1.1 Questionnaire Design

The questionnaire consisted of open ended questions and the 4 point Likert – ratings scale was used. The open-ended questions served the purpose of enlightening the authors on more general information, whilst the Likert scale questions provided information on the relative importance of each factor. The rating scale type questions gave an indication of the implementation of certain procedures and systems.

The discussion below illustrates each key variable and the accompanying indicators that were used in the questionnaire. These variables were posed to respondents as it indicated the level of governance and if there was a degree of succession planning. The key variables used were based on the literature survey and were namely, business strategy (Sobel and Redding, 2004; Young, 2006), governance (Painter-Morland, 2006), skills development (Seymour, 2008; Galagan, 2010) and succession planning (Hills, 2009; Hewitt, 2009; Richtermeyer, 2011). The variables were identified as main concerns in regard to corporate governance in SMME's as well. Further an explanation for each variable used to measure and test the objectives is explained below:

Business Strategy: Business strategy was used as a variable to see if the company plans for the exit strategy of their shareholders and top management, and whether their succession plan was aligned with the business strategy that they followed.

Governance: Governance was used to see in what way the business was controlled by shareholders, procedures and managers.

Skills Development: The study must be able to establish if the company is acquiring new talent from outside or if the employer is developing staff from within.

Succession Planning: Succession planning was used to see if employers use direct measures to ensure sustainability in their companies, and if they perceive succession planning as a value adding component of their business.

The variables were operationalised using indicators represented by I and are shown in table 2.1 to 2.4. Paired questions were used to identify gap in perception and reality.

Table 2.1. Business strategy indicators

Business Strategy (BS)		Indicator
	I. 11	It is to the advantage of companies to be controlled by a board of directors.
B	I. 14	Plans should be in place for shareholders of companies to cash in their shares, as to have a steady and clear handover.
S	I. 25	The strategic plan for the/my company has been aligned with the business's capacity.
	I. 28	A formal plan is in place within the company for shareholders to cash in their shares.

Table 2.2. Governance indicators

Governance (G)		Indicator
	I. 1	It is to the advantage of companies to be controlled by a board of directors.
	I. 3	Companies should formulate an organogram of its organisation, so that employees know what their career paths are.
G	I. 4	Companies' succession plans should be reviewed on an annual basis to ensure that all critical positions are covered.
	I. 15	There is a governing body to control our/my company at all times.
	I. 17	A company organogram has been formulated.
	I. 18	The company's succession plan is reviewed regularly.

Table 2.3. Skills development indicators

Skills development (SD)		Indicator
	I. 6	Grooming, training and developing are essential to give potential top managers the tools to flourish within companies.
S	I. 9	Skills development from within companies has many benefits over outside recruitment for top management positions.
D	I. 20	Grooming, training and development is given to all potential top managers by the company.
	I. 23	Skills development from within the company's ranks is preferred over outside recruitment for top management positions.

Table 2.4. Succession planning

Succession Planning (SP)		Indicator
	I. 2	Succession planning for specific top management positions is very important in companies as to have a smooth transition of responsibilities.
	I. 5	It is to the benefit of companies to identify top managers from an early stage from within the company.
	I.7	Talent management can add value to companies as talent is identified from within the company and new top managers are earmarked.
	I. 8	Getting in outside talent can improve a company's skills pool for top management.
	I. 10	An exit strategy must be drawn up for the senior generation of companies, as to ensure a planned and trouble-free retirement.
S	I. 12	Formal delegation of duties to employees has positive impacts as employees know what is expected.
P	I. 13	A good performance management system can be beneficial to companies as it shows employee's contributions, and companies can identify its most valued employees.
	I. 16	Succession plan for specific top management positions is clearly identified and communicated to employees in my company.
	I. 19	The company always identifies potential top managers from within the company.
	I. 21	An effective talent management system is running within the company.
	I. 22	Outside talent is the most preferable way to get the required skills for top management into the company.
	I. 24	The company has already drawn up an exit strategy for the senior generation.
	I. 26	Formal ways to allocate duties and responsibilities within my/our company have already been formulated.
	I. 27	A performance management system is in place at the company to monitor each employee's contribution to the business.

The qualitative data from four case studies (Company A, B, C and D) were gathered within the manufacturing industry within Johannesburg, to assess the impact of succession planning in these company's performance, value and sustainability. Company history, Business Structure, Manufacturing division, Systems and governance, Impact of succession planning, Ownership, Growth and value were the variables that were studied.

5. Data Collection and Analysis

The Likert-rating scale questionnaire was circulated to do the survey by means of e-mail and physically giving the document during the month of May 2011. Approximately three weeks was allowed for the respondents to reply, during which reminder e-mail and calls were made. After the 3 week response time was over all the available information was logged and analysed. Four case studies were gathered within the manufacturing industry within Johannesburg, to assess the impact of succession planning in company's performance, value and sustainability.

Statistical analysis was done in consultation with the Tshwane University of Technology's Directorate of Research and Innovation. Cronbach's Alpha (see note 1) was used to measure the reliability of the questionnaire. The analysis tests the extent to which a set of items can be used to measure a single latent variable.

Table 3.1. Cronbach's (α) I1-14

Item	Alpha(α)
I1	0.7483
I2	0.7377
I3	0.7843
I4	0.7696
I5	0.7698
I6	0.7437
I7	0.7926
I8	0.7835
I9	0.7695
I10	0.7522
I11	0.7972
I12	0.7904
I13	0.7843
I14	0.7417

Table 3.2. Cronbach's (α) I15-28

Item	Alpha(α)
I15	0.9220
I16	0.9005
I17	0.9185
I18	0.9055
I19	0.9066
I20	0.9014
I21	0.8997
I22	0.9033
I23	0.9027
I24	0.9146
I25	0.9290
I26	0.9126
I27	0.9087
I28	0.9184

Items in table 3.1 and table 3.2 show Cronbach's Alphas are consistently above 0.70, which indicates that the information is highly reliable.

5.1 Data Analysis

Table 4. Mean values for indicators I 1-28

Variable	Key Variable	Average
I.11	Business Strategy	3.07
I.14	Business Strategy	3.20
I.25	Business Strategy	2.87
I.28	Business Strategy	1.93
I.1	Governance	3.20
I.3	Governance	3.33
I.4	Governance	3.00
I.15	Governance	2.87
I.17	Governance	3.40
I.18	Governance	3.00
I.6	Skills development	3.73
I.9	Skills development	3.27
I.20	Skills development	3.00
I.23	Skills development	2.93

Variable	Key Variable	Average
I.2	Succession Planning	3.60
I.5	Succession Planning	3.47
I.7	Succession Planning	3.00
I.8	Succession Planning	3.33
I.10	Succession planning	3.33
I.12	Succession planning	3.33
I.13	Succession planning	3.20
I.16	Succession Planning	2.93
I.19	Succession Planning	3.00
I.21	Succession Planning	2.87
I.22	Succession Planning	2.20
I.24	Succession planning	2.47
I.26	Succession planning	2.80
I.27	Succession planning	2.60

The responses were tabulated for the mean (average) for the particular variable and its indicator. The questions have been further refined from the 4 point scale, which was represented by (1) strongly disagrees, (2) disagree, (3) agrees or (4) strongly agrees, to only state if the respondents agreed or disagreed with the statements. Any answers under the value of two will indicate that the respondents did not agree with the statement and any value over two will indicate that they agreed with the statement. The mean values are shown in table 4.

Table 5. Key variable averages indicating the perceptions

Indicators	Variable Number	Key Variable	Average
I 11, 14	V. 1	Business Strategy	3.13
I 1, 3, 4	V. 2	Governance	3.18
I 6, 9	V. 3	Skills development	3.50
I 2, 5, 7, 8, 10, 12, 13	V. 4	Succession Planning	3.32

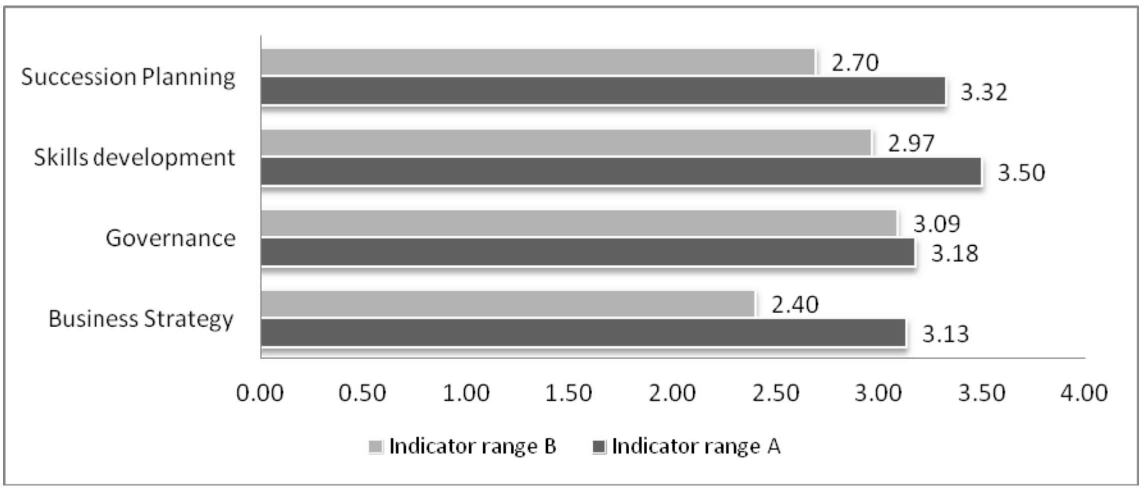
The above table 5 illustrate that the average response from the respondents were in agreement with all the statements that was stated. The average scores suggested that the respondents felt very strong need of all the variables tested in their organization.

A gap analysis was used to analyse the research findings. The GAP analysis was used to see if there was a gap between what was perceived by companies as being an advantage to companies if implemented and what was actually implemented by the companies themselves. The graph below (Table 6 and 7) gives a graphic illustration of the gaps that exist between the key variable averages. An example of the method used is as follows: indicators range A gives the mean values of indicators I 11 and I 14 these question constructs indicate what the companies perceive as an advantage. Indicator range B represent the averages of indicators I 25 and I 28 the question construct deals with was actually implemented by the company. The average indicator range A for key variable (V1) is then subtracted from indicator range B for key variable (V1) to get the gap.

Table 6. GAP analysis scores

Key Variable (V)	Indicators Perceived (A)	Mean Value	Indicator Actual (B)	Mean Value	Compared Variables	GAP (between means)
Business Strategy	I 11, I 14	3.13	I 25, I 28	2.40	V1 -- A - B	0.73
Governance	I 1, I 3, I 4	3.18	I 15, I 17, I 18	3.09	V 2 --A - B	0.09
Skills development	I 6, I 9	3.50	I 20, I 23	2.97	V 3 -- A - B	0.53
Succession Planning	I 2, I 5, I 7, I 8, I 10, I 12, I 13	3.32	I 16, I 19, I 21, I 22, I 24, I 26, I27	2.70	V 4 -- A - B	0.63

Table 7. GAP analysis graph



The gaps that can be observed in the two preceding graphs show the perceived importance of the variables by the companies and what is actually implemented. The significance gap level of 0.5 was used and the following findings were made in respect of each variable:

Business Strategy: There was a gap of 0.73 in respect to what the companies perceived to what is to their advantage and what they are implementing. This variable represented the statements in regard to the company's utilisation of an exit strategy for their shareholders and top management, and whether their succession planning is aligned with the business strategy that they follow. It can be inferred that the respondents perceives highly of what needs to be done but the implementation is not up to the level expected.

Governance: There was no significant gap between responses in regards to the companies' governance. The GAP is very small so the assumption can be made that respondents implemented governance measures according to what they perceive as good practice. Governance is used to see in what way the business is controlled by shareholders, procedures and managers.

Skills development: The study established that there was a gap of 0.53 in regard to the implementation and perceived advantage of skills development. Skills development is of paramount importance to succession planning as the new up and coming generation needs the proper training and development to function as the new leaders and to ensure the sustainability of the company.

Succession Planning: Succession planning had a significant gap level of 0.63 which illustrate that companies perceive succession planning as a measure to ensure sustainability in their companies, and that they recognise succession planning as a value adding component of their business. Although they do acknowledge that succession planning is value adding but they do not follow the necessarily follow steps to move from their current state to the preferred state.

Common issues found in case studies

Common issues that were identified within the case study, was that there is a lack of succession planning in most SMMEs. As most of these companies are still owned and managed by their founding members it creates a problem of sustainability. These shareholders will also be reaching pensionable age within the following few years and it is important to ensure that all plans are drown up before hand, to ensure that these companies remain operational and functional even when the owner isn't personally able to manage.

6. Discussion

The first objective of the research was to establish the status of succession planning in the selected SMME's in the manufacturing industry in Johannesburg.

The gap analysis that was done revealed that succession planning within the sector is not at the desired levels as yet. It was surprising though that most of the companies surveyed already have systems and plans in place to improve their sustainability. Findings in the quantitative study indicators for business strategy suggested that top management perceives it as an advantage if the company has a succession plan in place as it may add great value to a company as there will be a smooth transition of control from one top manager to the next. There is unfortunately not a lot of research on this topic to collaborate with previous research, Ip & Jacobs (2006) however identified that succession planning can add value but that it does not guarantee success (Ip & Jacobs, 2006).

With this study it was identified that it is critical for companies to identify potential top management from an early stage and to communicate such plans throughout the company. These career plans of employees should be updated annually to identify possible gaps and opportunities. This can be substantiated by research that was done by Hill, 2009 where he states that when building talent from within the organisation, there is less of a learning curve when moving people into new positions. Talent from within can also get right to the point and can focus on what they need to do to be successful. By promoting employees from within, organisations provide more opportunities for people from within the organisation to grow develop and move on (Hills, 2009).

The study showed that some companies however show preference to recruiting in outside talent and developing inside talent. The deduction is that both these methods add value. Inside development of talent adds value to a company's pool of potential top managers by giving them the proper training and also grooming them for the position. Whereby recruiting in talent brings in new fresh skills and ideas. Seymour (2008) also supports this notion in his research as he shows that recruiting in talent keeps pace with changing market demands, that specialised skills are acquired and that it brings in fresh perspectives. He however argues that it is expensive and the new talent is unproven (Seymour, 2008).

This study showed that the alignment of the companies' business capacity and its business strategy has possible growth and prosperity to effect, as this includes looking at the company's shareholders and demographic nature as was established with the key variable of business strategy. It was found in the open ended questions in the questionnaire, that most of the top managers within the sector were running the companies and will be reaching pensionable age within the following five (5) years, which creates a big problem for their exit strategy which is mostly lacking or non-existing. Mirel (2006) also states that current succession planning is a looming problem for companies as the baby boomer generation is beginning to retire and as a result companies will experience the challenge of growing sustainable business (Mirel, 2006). Hewitt (2009) also states that it takes critical staff around eight years to reach maximum potential. So the target will be five years away depending on the training, induction and garnering experience that will be required for the specific position (Hewitt, 2009).

This study also found that there were disparities that were identified between what was experienced by top management as value adding to the business and what was implemented. Companies showed that they did do succession planning for specific top management positions, but not at sufficient level. Hewitt (2009) argues that planning a good succession plan takes a lot of input and expertise. As good succession plan considers the whole spectrum of the company not only in the boardroom but also on the shop floor (Hewitt, 2009).

Grooming, training and development of potential top managers was also not used to give these individuals the proper tools to fill their positions as is illustrated by I6, thus creating a skills gap. Galagan (2010) states that an organisation can no longer grow or remain competitive when it cannot fill critical positions, as an unprepared workforce can hamper the performance and growth of an organisation (Galagan, 2010).

There was also no sufficient exit strategy for the senior generation and also no plans on the table for shareholders of these companies to transfer shareholding from the departing management to the new generation. Richtermeyer (2011) argues that if succession planning is done correctly and with foresight, it can ensure continuity of leadership and provide a solid foundation for the board, employees and manager (Richtermeyer, 2011).

The following findings emerged from the case studies.

Out of the case studies of Company A and Company B it became evident that good succession planning is necessary to diminish the risk posed by not having key personnel. It is important to have successors in the flanks to carry the business forward. As Seymour states, the reality of the situation is that investors look at the quality of the next generation of management and its preparedness to propel the business to new heights. Having a competent and consistent management and workforce in place will give investors peace of mind and will give the selling business more negotiating power (Seymour, 2008).

In the case studies that was done it was found that 3 out of the 4 cases where businesses that was started by the current owners that did not have a fully implemented succession plan. This can hamper possible business value as the skills and knowledge can disappear with the owners. Martin et al (2002) found in his research that SMME's are vulnerable to succession failure, as their objectives relate to their owners. As most of these businesses are lifestyle businesses, they sometimes have reduced saleability (Martin et al, 2002).

Proper succession planning was only done by one of the cases namely company C. A company that does not have a formal succession plan can invite detrimental effects to the business, if the necessary skills are not nurtured and developed. The grooming of a new CEO or board member can take a long time. Martin et al (2002) found in his study that many owners do not start thinking about succession early on , and as a result there is a lack of proper development of managers (Martin et al, 2002). Hewitt (2009) who was quoted in the quantitative analysis can again be made applicable here, where he states that it takes critical staff around eight years to reach maximum potential (Hewitt, 2009).

From the above evaluation it can be deducted that succession planning do add value to business, its performance and sustainability.

7. Conclusions and Recommendations

The study found that there was a gap between perceived and actual status of succession planning in the SMMEs studied. It further revealed that there was no preference to recruiting from outside versus developing inside talent in preparation for succession planning. This finding can provide guidance to other SMME owners while making their succession planning, while it provides opportunities for managers. Most of the top managers surveyed indicated that they will be retiring in next 5 years and indicated that company had no succession plan or exist strategy. This finding has serious implications for the SMMEs studied and must take succession planning very seriously, otherwise they will come to a halt suddenly when the leadership leaves the enterprise for whatever reason, either due to natural death or otherwise. SMMES studied did not put plans in place to groom, train and develop top managers. As a way forward some strategies that can be followed to address the key variables are:

Business Strategy: An organisational structure should be implemented so that employees know who is next in line and what is expected of them, so that if anything is to happen to top management that company can still carry on. Exiting top management and shareholders should have contingency plans in place to ensure that the business can outlive them and that they have a proper exit strategy in place to carry over shares to the new management or new shareholders. The business strategy can add great value to a company if it needs to be sold.

Skills development: Identified top managers should be groomed and developed to ensure that they know what is expected to fill the vacant positions. It is of paramount important to ensure that these potential managers are fitted with all the necessary knowledge and skills to manage the top management of their companies.

Succession Planning: Implementing a formal succession plan is very important to ensure that all aspects have been looked at if something is to happen. The succession plan should also be reviewed annually to ensure managers' suitability for positions and to ensure that all aspects have been accounted for. In conjunction to a good succession plan it is also necessary to have a good performance management system to ensure that potential top managers are identified from within or to see were individuals can be improved or where skills should be recruited from outside. Duties should be delegated in such a way that the business can operate if one or more key persons are absent thus employees should be multifunctional and flexible.

It is evident from this study that the manufacturing sector has not changed from those recorded in earlier studies. The conclusion from this study served as a wakeup call to the SMMEs which took part.

8. Further Direction of Research

It is suggested that similar research is conducted annually within the companies to measure to what extent the companies have implemented their specific succession planning. The reasons for not having a proper succession planning by these SMMEs can be studied as an extension of this study. Factors such as fear to lose control over the company, high cost of training successor etc can be explored amongst other factors.

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Note

Note 1. The value of Alpha (α) can range from negative infinity and to a positive one, although only positive values make sense. The closer Alpha is to one, the higher the internal consistency reliability (Sekaran, 2003: 307). A reliability coefficient of 0.70 or higher is considered acceptable in most cases. Hence, as the inter-item correlations are high, the evidence exists that the items are measuring the same underlying construct and therefore have a high reliability (Cronbach's Alpha, 2007).