

Factors that Affect Succession in African-American Family-Owned Business: A Case Study

Charles W. Hunt

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ABSTRACT

Factors that Affect Succession in African American Family-Owned

Businesses: A Case Study

Charles W. Hunt

Chair of Dissertation Committee: Dr. Richard Henderson

A great deal of literature confirms the fact that small family-owned businesses rarely extend beyond the founder of the business. This study explored and identified factors that helped to create a successful family business transition for two African American family-owned businesses in the San Antonio area. One family experienced working through a well thought-out succession plan that successfully passed the mantle from one generation to the next, while the other family experienced going through an unexpected, unplanned business succession that was also successful. Understanding the factors that help create a successful family business transition is difficult because there is very little scholarly research that has an in-depth focus on the African American family business. The research design used was a Phenomenological Qualitative Historical Case Study.

The findings revealed that both families' success may be attributed to factors such as being raised by both of their parents and being taught family values, hard work, responsibility, and accountability. Self-preservation, the first law of nature, was taught to make them aware of the importance of taking care of self first, so they could take care of others. As children, they watched their parents at work, which gave them the opportunity to shape and mold their own work ethic with a strong family influence.

Most of the children in both families were socialized into the family business and never worked elsewhere. Both families were very active in church and made the church the center of their social life. All of the family members had mentors and/or role models as a child, at school, and at work. The researcher concludes that it is important to note a plan for succession should consist of three elements, all of which must precede the actual succession by a few months. A plan for succession occurred in one case; however, in the second case, it occurred several months after succession took place.

DEDICATION



Sylvia Robinson

I dedicate this dissertation to my loving sister, Sylvia, who looked out for me growing up, counseled me as an adult, and was also my best friend. I, as well as many who knew Sylvia, considered her special. Most of her life was dedicated to helping others. I can remember when we were young; we slipped out of church one morning to buy some candy from the neighborhood store, across a busy street. She told me to stay on the sidewalk where it was safe, as she attempted to run across the street to the store. Unfortunately, she was struck by a car; I stood on the sidewalk crying. But the Lord had plans for her. On that day, he allowed her to get up from the street, brush herself off, and worry about the spanking we were going to get from our grandmother for leaving church.

Sylvia was a majorette in high school. I wanted to try out for drum major, but thought it would be a waste of time. She encouraged me to try out; I did and won the

position. I was also selected from the other drum majors at camp to return each summer and teach the new drum majors from around the state. Because of this, a college band director saw me and recruited me, giving me a full college scholarship to play in the concert, jazz band, and be the drum major of the marching band.

After leaving corporate America for entrepreneurship, then entering the field of higher education, my sister counseled me and said that if I was going to advance in higher education, I needed to get my master's degree. I did not think that I could be successful after 24 years of being out of college. But within two years, I graduated with my master's and accepted a faculty position with a college Business Management Department.

Sylvia's work on me did not stop there. After Incarnate Word University announced they were accepting applications for their first Ph.D. cohort, she convinced me to apply. I said, "no way," but I ended up applying anyway. The rest is history.

Yes, my sister Sylvia is the reason I present this dissertation today. She gave me the strength to believe in myself, as she always did. On the morning of Sunday, October 6, 2002, The Lord called Sylvia home at the age of 56. I love you, Sis, and know you will always be by my side.

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I would like to thank the members of the Harris and Shields' families for devoting many hours of insight and discussion about their family history and unique business succession.

I will be forever grateful to my wife Bobbie for her loving patience and endurance throughout this effort. Without her support and encouragement, I would have never achieved this goal.

I respectfully thank my dissertation committee for their sympathetic, kind, caring, understanding, and guidance throughout this unforgettable experience.

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Valese and Roscoe Cunningham, Figures 1 & 2

University of Texas Institute of Texan Cultures at San Antonio, Figures 4 & 5

San Antonio Register, Figures 6 & 7

San Antonio Conservation Society Foundation Library, Figures 8, 10, & 20

All other photographs were taken by the researcher.

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Chapter One: Introduction

Case Description

After spending a lifetime building up and supervising a family business, many chief executives have yet to figure out who to pass the business to—or even how the transfer of power should take place. Over the last quarter of a century, researchers, practitioners, writers, and others have given a great deal of attention to the topic of succession in family businesses. According to Dunlavy (2002), the 1999 U.S. Census reported that 20% of all Americans were over the age of 55. He also quotes the Arthur Anderson/Mass Mutual American Family Business Survey, stating that the median age of all CEOs is 56. Further, Americans are poised to transfer \$12-18 trillion to the next generation by 2017, much of that wealth in the form of family business interests. Dunlavy also states that 43% of all CEOs were expected to step aside in 2002. Ninety percent of those CEOs believed their companies would somehow remain in the family and continue after they had taken their last paycheck, even though their children may not have been capable of running the business or even wanted to; there may be no market for the stock (Dunlavy, 2002). Some of the CEOs have given significant operational roles to their offspring; others have yet to develop any type of succession plan or even choose a family member to whom they can pass the torch. Companies without succession plans have a great deal at stake. The founders of those businesses could see their lifelong hard work dismantled, or even sold to non-family members. Only 30% of such companies survive a generational transition, and roughly 10% make it from the first generation to the third (Dingle, 1997).

In looking at the age of 100 of the largest African American family-owned businesses in the United States, it appears that many of them are in need of succession planning.

Twenty-seven of the 100 largest Black Enterprise companies are 25 years old or older, and another 34 will mark their 20th birthday by the turn of the century. Although the companies have gone through radical permutations over the years, many of the Black Enterprise 100 CEOs are well into their sixties. If they haven't already started, now is the time for many of these Black Enterprise 100 mainstays to prepare succession plans. (Dingle, 1997, p. 159)

The names of some of these CEOs include: John H. Johnson of Johnson Publishing Co., Byron E. Lewis of Uniword Group, Edward G. Gardner of Soft Sheen Products, and Herman J. Russell of H. J. Russell & Co.

Howard Hughes, best known for being an aviator, movie producer, billionaire, and hypochondriac, inherited the family estate after his father suddenly died a few weeks after Howard turned 18. In spite of his differential demographics, his life story serves as an important example for succession. According to *Famous Texans* (1985), in 1924, Howard Hughes moved to Hollywood and began to make movies (p. 1). By 1928, he won an academy award for the movie *Two Arabian Nights*. In addition, in 1932, Hughes Aircraft Company, a division of Hughes Tool, was formed. Hughes pioneered many aerospace technology innovations to include setting new speed records as a pilot flying military planes converted to racing planes. In 1972, Hughes sold Hughes Tool Company's stock and renamed his company Summa Corporation, ending any remaining role in his business (*Famous Texans*, 1985). On April 5, 1976, Hughes died without having a valid will. Research indicates that he left an estate estimated at \$2 billion. Four hundred prospective heirs tried to inherit it, but it eventually went to 22

cousins on both sides of his family (*Famous Texans*, 1985). It took nearly 15 years and \$30 million in legal fees to settle Hughes' affairs and prove that various wills surfacing after his death were forgeries (Myers, 1997). Proper planning allows business owners the opportunity to state who inherits their fortunes and possessions. Without this planning and drafting of a will, it is left to government officials to decide the disposition of assets that remain.

The first Black-owned investment company on the New York Stock Exchange, Daniel & Bell, which once traded in municipal underwriting worth billions of dollars, was ruled insolvent by the courts. After the death of the founder, Travers J. Bell, his son Darryl Bell inherited the firm. Because the father, Travers, failed to plan how the business would be run after his death, he had not groomed his son as its successor. Inexperienced in finance and business, Darryl spent most of the company's assets in a very short time. The courts ruled that the firm and its properties were to be sold to fulfill creditor obligations (Shakespeare, 1996). Because the future is not certain for any business, it is wise to plan for some type of organized business transition so the family will not experience what Daniel & Bell's business or Howard Hughes' family experienced when their CEO died.

Statement of Purpose

The purpose of this case study was to identify and explore factors that helped create a successful family business transition for two African American families. Therefore, this case study attempted to identify those factors that help explain what these two African American families experienced while going through a successful succession. The researcher explored characteristics (individual, collective—group,

social, political, economic, and cultural), to determine if it contributed to the successful command change.

The case study methodology was the primary method of research used. Case studies allow the researcher to gather rich data and through a triangulation process with narrative, document reviews, and observation sessions, confirm the trustworthiness of the data. This study generated better insights into the unique family business succession process as performed by African American family members.

Research Design

The approach to this study is shaped by case study research. A case study is an intensive description and analysis of a phenomenon or social unit such as an individual, group, institution, or community (Merriam, 1998). The case is a bounded integrated system (Merriam, 1998; Stake, 1995). In addition, by concentration upon a single phenomenon or entity (the case), this approach seeks to describe the phenomenon in depth. Consequently, the unit of analysis, not the topic of investigation, characterizes a case study (Merriam & Sharan, 1989). The specific research design that was used to carry out the study was an interpretive qualitative research method, because the primary interest was to understand what family members experience in a successful family business transition. This method provided an understanding of what the family member experienced before and during the transition. The setting in which the interviews was conducted are as follows: the conference room in the St. Philip's College Counseling Center, Harris Floral Shop, and the home of Kathryn Shields.

Definition of Terms

A Family Business – Donnelley (1964) states:

A company is considered a family business when it has been closely identified with at least two generations of a family and when this link has had a mutual influence on company policy and on the interests and the objectives of the family. Such a relationship is indicated when one or more of the following conditions exist:

1. Family relationship is a factor, among others, in determining Management Succession.
2. Wives or sons of present or former chief executives are on the board of directors.
3. The important institutional values of the firm are identified with a family, either in formal company publications or in the informal traditions of the organization.
4. The actions of a family member reflect on or are thought to reflect on the reputation of the enterprise, regardless of his formal connection to management.
5. The relatives involved feel obligated to hold the company stock for more than purely financial reasons, especially when losses are involved.
6. The position of the family member in the firm influences his standing in the family.
7. A family member must come to terms with his relationship to the enterprise in determining his own career. (p. 94)

Factors – Stavrou (1996) states that factors

are the reasons hypothesized to influence offspring intentions to join or not join the family business. The family factor includes behavior elicited primarily from family membership, dynamics, values, relationships, needs, and desires. The business factor includes behavior directly related to interest in the business operations and practices. The personal factor includes behavior primarily related to individual needs, goals, skills and abilities. And the market factor includes behavior directly related to employment opportunities in the business community. (p. 13)

Family – Family is defined as a social system consisting of individuals, related either by blood or by legal adoption, interacting with and influencing the behavior of each other (Legler, 1988).

Family Business – There is considerable confusion in defining the term family business (Litz, 1995). For the purpose of this study, a family business is viewed as one in which the family has some degree of effective control of strategic direction, and that the business is at least intended to remain in the family (Shanker & Astrachan, 1996).

Family Business Succession – This has been defined as “the passing of the leadership baton from the founder/owner to a successor who will either be a family member or a non-family member; that is, a ‘professional manager’” (Beckhard & Burke, 1983, p. 23).

Generational Number – This refers to the number of intergenerational successions that took place in the business between family members during the business’s life. For example, if the business is in its first generation, the founder is still in charge of its day-to-day operations. If a business is in its second generation, the founder’s first successor is in charge of the firm’s operations. If a firm is in its fourth generation, the founder’s third successor is in charge of the firm’s operations. In turn, an intergenerational transition is a succession that takes place from one generation of family members to the next (Stavrou, 1996).

Succession Planning – This is the formal or informal process that involves the selection of a suitable successor to replace the business’s owner/CEO, who has founded, acquired, or inherited the firm (Grusky & Miller, 1970).

Significance of the Study

Family businesses are important to the U.S. economy. According to Shanker and Astrachan (1996), they represent about 92% of all U.S. businesses and generate 49% of the gross domestic product. Further, they employ roughly 59% of the total

workforce—approximately 77 million people and created 78% of all new jobs between 1977 and 1990. In today’s environment, family businesses are outperforming their larger counterparts in terms of creating jobs and growing their businesses. In recent years, *family* businesses have begun to receive a great deal of attention. Because of this attention, a great deal of research has been conducted on what makes family businesses so successful. Most of the research has focused on the “family” aspects of the business, mostly dealing with family succession. Family business succession has been defined as “the passing of the leadership baton from the founder/owner to a successor who will either be a family member or a non-family member; that is, a ‘professional manager’” (Beckhard & Burke, 1983, p. 19).

Many studies have been conducted and published on family business. These commonly deal with topics referring to starting the business, finances, avoiding failure, interpersonal and family relationships, and succession. These studies are indeed prevalent and exhaustive. Some research is centered upon strategic planning and business visions, goals, and objectives. Very few studies, however, address the forces that continuously impact succession, especially from the African American perspective.

Beckhard and Burke’s (1983) research does not differentiate between ethnicity and race. This research attempted to address these missing elements by studying an African American experience of the succession process. This research promotes an understanding of the range of factors accountable for the problems associated with family succession, especially as this relates to an African American family. This research fills a gap in the literature by analyzing succession success from an African

American next-generation family member's perspective. Prior to this research, the attention at the individual level has typically been on the founder or entrepreneur as the central person in the family business. Therefore, a systematic investigation of an African American next-generation family member's experience of a successful succession, and the factors impacting this experience, has furthered our knowledge in this area. The understanding of factors that influence those offspring to choose positions in the family firm will help especially regarding the future; other family members make better decisions regarding the human resources most suitable for their firms. Specifically, since most family firms (83%) do not have formal entry and succession criteria for family members, clarifying the reasons that influence offspring to join the firm can help develop such criteria.

Limitations

One of the major characteristics of qualitative research is that the results are limited to the group being studied. The results of this proposal are limited to the selected family members for the study. The interpretations of the family member's experiences are colored by my own life experiences as a professional African American man bound by class, culture, and my own business history. Nevertheless, our conclusion helped to further understand the challenges African American business people face in order to succeed from one generation to another.

Background of Researcher

The motivation for this research was based on my personal history in a family firm. As a next-generation family member, I tried to understand my experiences in the family business. It was not long before I realized the need to conceptualize my

experiences by examining different levels of analysis. There was my need for freedom and autonomy, wanting to have interpersonal relationships, and of course, a need for family. My desire was to understand how these and other influences interplayed in terms of my own quality of experience and how my experience was similar and different from other African American next-generation family members.

Growing up on the east side of San Antonio, I remember several African American owned businesses that not only served the African American community, but the community in general, with quality products and services. These businesses included hotels, taxicab companies, drug stores, flower shops, funeral homes, gas/service stations, liquor stores, nightclubs, restaurants, and a vocational trade school. The families of these businesses were prominent and well respected in the community. These Black businesses played a major role in the development of the African American culture in San Antonio today. As time passed and owners died, these businesses closed.

My grandfather founded a proprietary institution in San Antonio, Texas, in 1946, that was licensed by the Texas Education Agency. In 1982, it was accredited by the Southern Association of Colleges and Schools. The institution participated in the student financial assistance (SFA) programs funded by the U.S. Department of Education under the Higher Education Act of 1965. Those programs included the Perkins Loan, Pell Grant, Supplemental Educational Opportunity Grant (SEOG), College Work Study (CWS), and Stafford Loan (formerly known as the Guaranteed Student Loan). The funds provided under these programs help financially needy students meet their cost of postsecondary education.

My grandfather had three children. The oldest son had one son. The other son had one son, and the daughter (my mother) had a son (me) and a daughter (my deceased sister).

Growing up, his children had no interest in the family business and chose other employment/careers. My sister, first-cousin, and I were raised by our grandparents, which provided us the opportunity to get involved in the family business. However, from kindergarten through 12th grade, we showed no interest in the business.

My sister and I enrolled in college, and my first cousin joined the Army. My sister finished college and became a college counselor. I received a BA degree, worked as a retail manager trainee for one year, and a retail store manager for two years. After talking to the family, we agreed that I should return home and join the family business with the intent of taking it over.

After six years of learning the family business and achieving the title of Assistant Director, I had an opportunity to go to the next level of experience by joining the IBM Corporation's National Marketing Division as an Account Marketing Representative. I gained invaluable experience during my 12 years of working for one of the best companies in the world and was ready to return to the family business. It had experienced some hard times with program audits by the Texas Education Agency, the Texas Guaranteed Student Loan Program, and the U.S. Department of Education.

On the verge of having its national accreditation revoked by the Southern Association of Colleges and Schools, I decided to return to the family business. I tried to maintain the school's accreditation, with the hope of having my grandfather pass the

torch to me, a third-generation family member. I also had hoped for his gradually stepping back and letting go of the business that had taken him 47 years to build.

One may ask, “What prompted this decision?” Was it because of family pressure? Was it because of the experience I gained from working in corporate America and wanting to bring that experience to the family business? Was it because I wanted the freedom of being my own boss? Was it because of the money? Finally, was it because I thought I could save and grow the business for further generations? My plan was to receive my business degree, work a few years in corporate America to get experience, and then return to the family business with hopes of some day taking over through a smooth succession transition.

After accomplishing those goals, my grandfather, for whatever reason, had little confidence that the family business could continue to thrive without his leadership. Instead of training me to take over the business, he worked against me in order to keep control. For example, after returning to the business, the first thing I did was to conduct an internal environmental scan of the business. The results showed an imbalance in the student/teacher ratio at the institution, which led to my recommendation of eliminating two teaching positions. This correction would save the institution over \$80,000 in salaries per year. To him, saving the money was not the issue. It was the humanistic issue of eliminating the two people that performed the jobs. After several days of debating the issue, the positions were eliminated.

As Vice President of Operations, my responsibilities included the day-to-day operations of the institution. Having said that, I had a big problem with my grandfather allowing some of the employees to break the chain of command; they would go around