Understanding Small Family Business Succession in a Knowledge Management Perspective

Enrico Bracci* and Emidia Vagnoni**

Business succession in family firms has been one of the most investigated topics through theoretical, empirical and anecdotal studies (Brockhaus, 2004; Sharma, 2004; and Ward, 2004). However, we argue that this bulk of literature seems to neglect the role of the most intangible source of competitive advantage of firms: knowledge. At the same time, small family firms, although representing most part of the firms and facing higher risks of failure due to succession, did not receive much interest (Venter et al., 2005). The present study attempts to contribute to the literature shedding some lights on the business succession in small family firms informed by an Intellectual Capital (IC) perspective. The paper develops a theoretical model drawing from Intellectual Capital (IC) literature (Rastogi, 2003; and Mouritsen, 2004) and knowledge management concepts of knowledge repository (McGrath and Argote, 2000) and knowledge transfer (Szulansky, 2000). We assume that business succession is a process during which the intellectual capital evolves, with the risk of a slump loss due to the incumbent retirement, and so the knowledge flow needs to be managed. In particular, knowledge transfers through the interaction among the incumbent, the successor and the organization. This theoretical result illuminates how small family firms can maintain and increase their competitive advantage during the succession process, reducing the risk of failure.

Keywords: Small family firms, Intellectual capital, Knowledge management, Business succession

Introduction

Small firms represent world wide a fundamental factor in economic development and wealth. In particular, in the Italian context businesses are overwhelmingly small and family-owned (Bank of Italy, 1996; and ISTAT, 1996).

The literature suggests that 30% of firms survive into the second generation of family ownership, and just 15% survive into the third generation (e.g., Ward, 1987; Kets and Vries, 1993; and Matthews et al., 1999). The rate of survival for small family business is lower, down to an average five to ten years (Perricone et al., 2001).

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One of the main causes of failure is considered the centrality of the owner-manager, since it makes it difficult for the successors to take over effectively (Feltham et al., 2005). The owner-manager represents the main source of competencies and capabilities in the organization and his/her leave may cause a relevant amount of knowledge, as would happen for key employees (Wong and Aspinwall, 2004). Malinen (2004) argues that one of the most relevant obstacles in business succession is the difficulty to retain the knowledge from the incumbent to the successor. The unique bundle of resources called familiness has appeared in the literature as a possible explanation of the competitive advantage of family firms (Habbershon and Williams, 1999). The owner-manager plays a central role in the development of familiness, as organizational leaders do in terms of influence on culture, values and performance of their firms (Schein, 1983). The long-standing tenure of owner-managers (three times longer than non-family executives according to McConaughy, 2000) emphasizes their role in shaping and making the organization dependent on their physical presence.

Despite the relevance given in the literature to the distinctive resources and competencies at the base of the family business competitive advantage, there is scope for further development of integrated conceptual models to help researchers and practitioners in dealing with business succession. Although much has been written about the factors influencing the outcome succession process (Sharma et al., 2003; and Venter et al., 2005), little attention has been devoted to small firms and the impact on Intellectual Capital (IC) and knowledge. Sharma (2004), for instance, call for more studies directed to understand the transfer of tacit embedded knowledge to the next generation. The latter is considered one of the major concern for a successful succession. Besides, with few exceptions, the literature has not focused specifically on the peculiarity of small businesses (Venter et al., 2005).

The aim of this paper is to develop a theoretical model for managing knowledge in family firms succession, informed by Intellectual Capital (IC) literature. In doing so, the paper draws from literature related to family business, and IC and Knowledge Management (KM). Family firm succession, in this sense, is perceived as a process in which knowledge repositories modify and needs to be preserved and improved for the organization's future value creation capacity. The theoretical model is proposed to understand how family firm succession can be interpreted as a process of IC management. Our main argument is that business succession in small family firms can be effectively interpreted and managed as a process of knowledge transfer and creation in a synergic relation among the incumbent, the successor and the rest of the organization.

The paper will be structured as follows: The next section will present a summary of the family business literature focusing on the business succession, followed by an analysis of the small businesses characteristics under an IC perspective. After explaining the assumptions and structure of the theoretical model, the variables and factors considered in the theoretical model will be described. The paper will conclude with a description of the research and practical contribution of the model, as well as its limitations.
Business Succession in Family Firms: An IC Perspective

In this paper, we adopted a stringent definition of family firm and business succession. In detail, family firm is considered as a “business that will be passed on for the family’s next generation to manage and control” (Ward, 1987, p. 252). Business succession, coherently, is hereby defined as “either the occurrence or the anticipation that a younger family member has or will assume control of the business from an elder” (Churchill and Hatten, 1987, p. 52). Besides, throughout the paper, the terms business succession and business transfer would be used as synonymous, for the sake of simplicity. Business succession is undoubtedly one of the most critical processes in a firm life cycle and attracted the interest of several authors (Handler, 1994; Brockhaus, 2004; Sharma, 2004; and Ward, 2004).

There is a bulk of literature on family business succession that focused on different issues, in the attempt to shed some lights on its complexity. Business succession has been a central topic of the family business literature beginning from the 1960s, and represents almost one-third of the literature (Sharma et al., 1996). Succession is first of all a process that takes time to develop and needs to be planned and managed in order to be successful (Davis, 1968; Barnes and Hershon, 1976; Morris et al., 1996; and Sharma et al., 2001). In this process, however, several subjects are involved (Le Breton-Miller et al., 2004) the incumbent (Ambrose, 1983; and Rubenson and Gupta, 1996), the successor (Birley, 1986 and 2002; Barach et al., 1988; and Handler, 1990), the family (Davis, 1968; and Handler, 1990) and the stakeholders (Handler, 1989; Fox et al., 1996; and Steier, 2001). Other studies, moreover, focused on the difficulties that may be involved in the process, highlighting, among others, the intricacy of the transfer of capabilities for running the business (Fox et al., 1996; Malinen, 2001; Cabrera-Suàrez et al., 2001; and Chirico and Salvato, 2008).

Several factors influencing the succession have been suggested (e.g., Handler and Kram, 1988; Harveston et al., 1997; and De Massis et al., 2008) leading to develop analysis on the ability of the incumbent and the successor to manage the complex and highly emotional process of succession (Magretta, 1998; and Matthews et al., 1999). Despite this high interest, there is scope for improvement in theory and practice (Sharma et al., 1996; Sharma, 2004; and Brockhaus, 2004).

There is a general agreement on the fact that family business succession is a complex process that takes time and involves several and different factors (Le Breton-Miller et al., 2004; and De Massis et al., 2008), and where the incumbent and the successor goes through different phases. In that process, the relationships within the business and outside the business become the primarily governing factors (Churchill and Hatten, 1987). One of the surrounding issues, and major concerns involved in the business succession process is the transfer of tacit knowledge embedded in owner-manager’s mind to the successor (Sharma, 2004). Still, only recently some works appeared to tackle the issue (e.g., Cabrera-Suàrez et al., 2001; Steier, 2001; and Chirico and Salvato, 2008).

Indeed, family businesses develop distinctive resources and capabilities that are related to their capacity to outperform non-family businesses. Capabilities are unique in family business
since they result from the long-standing interactions between the family, its members and the business (Sirmon and Hitt, 2003). Adopting a Resource Based View (RBV) perspective, Habbershon and Williams (1999) introduced the concept of ‘familiness’, defined as the unique bundle of resources and capabilities that are distinctive to a firm as a result of the family involvement. This concept is recognized as emanating from the interaction between family members, and may lead to enduring competitive advantage (Chrisman et al., 2003). Familiness refers to the commonality of the unique resources, capabilities and visions within family firms, whether economic or non-economic. Family firms are not simply ‘made’, on the contrary they are usually ‘born’, however they are affected by social, cultural and economic factors both of the external environment and of the family itself (Chua et al., 2004).

Cabrera-Suàrez et al. (2001) propose a theoretical model for family firm succession centered on the familiness concept, and suggest the importance of transferring the tacit embedded knowledge as well as other factor of competitive advantage. Steier (2001) analyses another more specific aspect of the competitive advantage, such as networks and social capital, and proposes a model to face the problematic relationship among the successor and the stakeholders. More recently, Chirico and Salvato (2008) argued about the fundamental role of knowledge integration and dynamic, concluding that “those family firms that are able to effectively integrate individual family members specialized knowledge will be successful (…) by changing their capabilities overtime.”

The theoretical perspective of RBV, however, reckons that some resources can be more valuable than others, as is the case of intangible assets (Itami and Roehl, 1987; and Grant, 1991 and 1996). They include a wide range of elements, such as know-how, culture, technology, reputation, generally called Intellectual Capital (IC). Adopting an IC perspective can overcome some of the limits of RBV (Priem and Butler, 2001; and Foss and Knudsen, 2003), offering a more compelling and overarching framework able to picture the complexity involved in a family firm succession. According to Reed et al. (2006), IC is seen more apt to explain and measure the sources of competitive advantage of a firm. Besides, in a recent study Youndt et al. (2004) find positive correlation between IC and superior financial performances.

The empirical work of Hall (1992 and 1993) supports the idea of different strategic values among the overall concept of intellectual capital. The intellectual capital literature has spawned in the last decade from the different perspectives, giving insights on the content, management and measurement of the most impalpable sources of the competitive advantages of a firm. This literature, however, has focused mainly on the problems related to big-size company, neglecting the peculiarities of small-size companies. In the following section, we will attempt to discuss the impact of small dimensions on the characteristics of the IC.

Small Business and the Consequences for IC

It is widely recognized that “the economic prosperity rests upon knowledge and its useful application” (Teece, 1981). Conversely, firm success and prosperity are based on its ability to create and retain the stock of knowledge. Penrose (1959) offered a new perspective in understanding the source of competitive advantage of the firm. Economic rents are not
linked merely to the possession of resources, but to the extent they are managed and innovated through time. Penrose (1959) stresses the importance of continuous maintenance of the firms’ existing capabilities and knowledge bases in protecting and strengthening the competitive advantage. As Kuznets (1966) suggests economic growth, and business growth is due to the “increase in the stock of useful knowledge and the extension of its application.” Knowledge and information “have become the economy’s primary raw material and its most important outcome” (Stewart, 1997, p. x); they are the present and future basic economic resource (Drucker, 1993, p. 7). Ireland and Hitt (1999, p. 44) believe that “the ability to build, share, and leverage knowledge will replace the ownership and/or control of assets as a primary source of competitive advantage”. IC can be conceptualized and defined as a set of bundled capabilities/competencies and knowledge resources, which are linked and mutually dependent (Rastogi, 2003). As a consequence, competitiveness is the ability to continually build capabilities and competencies, which have a historical trajectory and yet are able to produce new and innovative products (e.g., Teece et al., 1997; Eisenhardt and Martin, 2000; and Winter, 2003). Knowledge management becomes strategic for every organizations, regardless the dimension of the business. The discussions in the literature on IC and KM, however, focus on large organizations, with little attention being paid to small businesses and small family business. The latter, often, compete through their intangible capabilities, since their resource scarcity (Welsh and White, 1981; and OECD, 2002) does not allow to cope with large corporations’ tangible capital.

In the literature, there are different propositions of what IC is and what are its main elements (among others, Edvinsson, 1997; and Petty and Guthrie, 2000), namely, Structural Capital, External Capital and Human Capitals. As defined below and depicted in Figure 1, we adopt an holistic approach in defining IC, as the result of dynamic interrelationships and conjoint interaction among three components (Rastogi, 2003): Knowledge Management (KM),

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<tr>
<th>Figure 1: Intellectual Capital Components: A Dynamic and Integrated View</th>
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<td>Knowledge Management (KM)</td>
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<tr>
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<td>Social Capital (SC)</td>
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<td>Human Capital (HC)</td>
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*Source: Rastogi (2003, p. 231)*

Understanding Small Family Business Succession in a Knowledge Management Perspective
Social Capita (SC) and Human Capita (HC). Structural capital can be considered as the knowledge created by, and stored in organization technical devices (IT infrastructures), routines and processes, but also embedded in patents, copyrights, trademark, and so on. It comprises the “hardware, software, databases, organizational structure, patents, trademarks, and everything else of organizational capability that supports those employees productivity” (Edvinsson and Malone, 1997, p. 11), and “it can be reproduced and shared (like) technologies, inventions, data, publications (…) strategy and culture, structures and systems, organizational routines and procedures” (Stewart, 1997, pp. 108-109).

On a knowledge perspective, Structural IC can be seen as a set of internalized knowledge composed by explicit and tacit knowledge embedded in structural elements, some with legal recognition. Structural IC can be thus equated to the capability of an organization to manage its embedded knowledge, and sustain its personnel in developing skills, capabilities. According to Rastogi (2003) structural capital can be considered the KM function of the organization. Small businesses are likely to have low levels of KM due to the lack of financial and organizational resources (Beaver and Jennings, 2005). They are organized in simple, flat and less complex structure with a high level of functional integration. Most of small business activities and operations, however, are governed by informal rules and procedures, there is less formalization and standardization in their work (Spence, 1999). Such organization structures are likely to be organic and loosely structured rather than mechanistic and formalized (Beaver and Jennings, 2005). In small businesses, the owner-manager normally represents the main source of strategic knowledge and dynamic capabilities. The latter is the ability to create visible and structured routines and processes, related to higher order capabilities which are cross-functional in nature (Bakhru, 2004). The lack of a management team and culture, information systems, managerial tools and processes is a significant weakness for small businesses when they face a business succession process. Indeed, this means that in small firms the stock of knowledge embedded in the organization and the ability to create, develop, share, integrate and use its knowledge, are expected to be low (Wong and Aspinwall, 2004).

The owner-manager in small firms also builds and shape organizational culture. The latter reflect the unique conditions and circumstances of its foundation, the “unique personalities of its founders and the unique circumstances of its development” (Martin-de-Castro et al., 2006, p. 330). Culture is difficultly replaceable, hardly transferable, but it does not represent a threat when it becomes an organizational capability (Barney, 1986).

The External IC, or Relational, refers to brands, customer loyalty, distribution channels, and financial institution collaboration. This group of IC relates closely to the concept of Social Capital (SC) (Nahapiet and Ghoshal, 1998) as an influencing factor of the economic performance of firms (Baker, 1990). Indeed, SC is considered as the network of relations, not just within the organizational boundaries, but most of all outside the firm. Arregle et al. (2007) define SC as the set of relationships existing among individuals that are involved and facilitate decisions and actions. Particularly useful is the concept of “relational embeddedness” (Granovetter, 1992) that describes the set of personal relationships people developed with each other.
Given the lack of a management team, in small firms the internal and external social capital is expected to reside in the owner-manager. Moreover, the owner-manager is at the center of a network of relations with the strategic stakeholders. What Nahapiet and Ghoshal defined as social capital refers to the “actual and potential resources embedded within, available through, and derived from the network of relationship possessed by an individual or a social unit” (Nahapiet and Ghoshal, 1998, p. 243). This is not far from Bourdieu’s position on social capital as “the sum of the resources, actual or virtual, that accrue to an individual or a group by virtue of possessing a durable network of more or less institutionalized relations of mutual acquaintance and recognition” (Bourdieu and Wacquant, 1992, p. 199). Thus, it is possible to assume that in small firms the individual unit of social capital is the owner-manager. During the succession process, one of the factors on which social capital is built becomes at risk (Steier, 2001). The stability of the network constitutes a form of accumulated history, of balanced equilibrium, which will inevitably lead to the need to reshape and redefine the roles and relations among members.

The last category of IC components is Human IC. Members of an organization retain personal knowledge, experience, expertise and some may have also owner-managerial spirit and ability to adapt and change. Human IC recalls directly the concept of tacit knowledge owned individually by members of an organization, the ability to think and innovate products or processes (Stewart, 1997). This is the most intangible of IC and it is hard to guarantee its presence and development over time. Employees cannot be owned, they may leave the firm determining a loss of knowledge, experience and expertise. The level of strategic knowledge held by the employees in small business can be generally considered low. This is due to the low degree of specialization that usually characterizes small firms’ employees. A low level of specialization may lead to inadequate expertise in taking charge of functions. Small firms may lack highly educated and experienced employees or expert professionals with management and ICT skills (OECD, 2002). Moreover, the investment on employee training is reduced or absent. The consequence are employees not having the necessary skills to manage and create knowledge.

By the learning process point of view, the owner-managers play a crucial role in the daily operations of their firms, which leads to a significant share of learning and knowledge at their level. This is especially the case of micro enterprises, in which the owner-manager tends to be the beneficiary of the learning process and not the employees (Wong and Aspinwall, 2004). It is not surprising that the knowledge is kept in the head of the owner-managers becoming the main knowledge repository and storage. Indeed, small businesses’ management style is characterized as dominated by the owner-managers, who is also the strategic apex, and the decision making is centralized with low level of delegation (Ghobadian and Gallear, 1997). This situation may become a weakness in the long run, since the absorption of knowledge from outside allows to update the IC and avoid obsolescence (Cohen and Levinthal, 1990; and Zahra and George, 2002).

The overall IC of a firm, in our analysis, is not the sum, but the result of the reciprocal influence of the three elements. Indeed, as suggested by Coleman (1988), Social Capital is
strictly related to the creation of HC through trustworthiness relationships, regulated also by norms and sanction, and the access to information flows. At the same time, the quality of the personnel is affected by the support given by the firm through Managing Knowledge (KM), but also affects the intensity and extension of the network of internal and external relationships (SC).

Given these assumptions, business transfer is not just a matter of physical assets, change in management and property. It is mainly a problem of maintaining and developing the level of operational and strategic knowledge embedded in the human and customer capital of the firm. Business succession, together with employees’ leave, are considered the major sources of knowledge loss for small businesses (Wong and Radcliffe, 2000; and Wong and Aspinwall, 2004). Small business will endure a greater risk from the occurrence of knowledge loss compared to large organization. This is because most of the key knowledge is held in the minds of few people, specifically the owner-managers.

To conclude, a successful family firm succession process is one that deals with the management of the flow of IC from the incumbent to either the successor of the organization as a whole. In the first case, there is a process of knowledge transfer between two subjects, in the second one, a knowledge formalization process; in both cases tacit knowledge needs to be made explicit and then internalized by the organization through routines and technological supports (Nonaka and Takeuchi, 1995).

Knowledge Repository and Management in Business Succession

The theoretical model is structured upon the IC and the KM literatures. In the previous section, the analysis highlighted the relevance of the components of IC, especially the role of the owner-manager as a source of knowledge. The latter, unlike other inputs such as land, labor and capital, is characterized by high levels of uncertainty and asymmetries across individuals. Knowledge cannot be easily measured, valued, created, accumulated and transferred, but it represents the source of competitive advantages.

Also, from a theoretical point of view, the reasons for the succession of firms to heirs can be referred to: The existence of an idiosyncratic knowledge of how to run the family business; the complexity of some business and the uncertainty of the future; and the competitive advantage related to the creation of transaction cost reducing social network, based on strong family ties (Bjuggren and Sund, 2002). Family firms, thus, represent in many cases an efficient and effective means of organizing and managing a business (Royer et al., 2008). Also, empirical evidence indicates that it is often more likely for an owner-manager’s child to become an owner-manager than for any other (Huuskonen, 1992).

We construct the theoretical model considering, as a key factor in a firm succession, the possibility to preserve, integrate and develop the stock of existing knowledge. The successor or the organization should be put in the condition to leverage the existing knowledge, and to bring in new one. Business succession from one generation to another is conceptualized as a process of knowledge transfer, integration and creation. Chirico and
Salvato (2008) highlight the importance of recombining knowledge, through the integration of knowledge among family members, in order to develop capabilities and competitiveness over time.

The perspective of IC focuses on the stock and flows of knowledge embedded in an organization and is connected with the financial performance of the firm (Mouritsen, 2004). Indeed, Petty and Guthrie (2000, p. 159) suggest that “knowledge management is about the management of the IC controlled by a company”, conversely in small businesses most of the IC is controlled and owned by the owner-managers as a form of tacit knowledge, work-related knowledge, work-related competencies, owner-managerial spirit, culture, values and so on. The owner-manager represents not just the main source of strategic HC (Kelly et al., 2000), but also of social capital (Steier, 2001), such as customer relationships, business partnerships, distribution channels. In Penrose (1959) terms, owner-managers possess two of the mechanisms for achieving competitive advantage, namely firm-specific knowledge possessed by manager; and the entrepreneurial vision of managers. In small family firms, given the absence of a management team, the owner-manager represents a potential bottleneck for the exploitation of market opportunities and the innovation of the business model. Several studies confirm the centrality of founders in family business (McConaughy, 2000; Garcia-Alvarez et al., 2002; and Anderson et al., 2003). They exert considerable influence on the culture and performance (accounting profitability measures, market performance and cost of debt financing) of the firm during and beyond their tenure.

Based on these assumptions, during the business transfer process, most of the firm’s IC is at risk and, needs to be adequately managed. IC management can be conceptualized using two different perspectives: (1) The Stock (or measurement), and (2) Flow (or strategic) approaches (Petty and Guthrie, 2000). The paper refers to the latter, since managing IC in small family firm succession is a matter of understanding “the creation and development of value” (Mouritsen, 2004, p. 261), and making sure it remains and develops with the next generation. We do not intend that the existing knowledge is all valuable and need to be transferred to maintain competitiveness. Indeed, owner-manager’s knowledge may be out of date, or may not fit with the successor business idea. As argued by Roos et al. (1997) IC flows within an organization may be used to create and leverage knowledge to enhance firm value, but also to discriminate between what is still useful and what needs to be integrated or discarded.

However, knowledge does not flow linearly within the organizations and it needs to be formalized in linguistic codes and symbols (Kogut and Zander, 1992). This is not always possible, often individuals and organizations do not know what they know. Most of knowledge is tacit and could be transferred and acquired only through observations, application and use.

Another challenge in managing knowledge transfer is that it resides in multiple repositories different in quantity and quality. Walsh and Ungson (1991) identified five retention repositories for knowledge in organizations: individual members; roles and
organizational structures; the organization's standard operating procedures and practices; its culture; and the physical structure and the workplace. In a more recent contribution, McGrath and Argote (2000), condensed the number of repositories down to three basic elements of organizations: members; tools (hardware, software, information systems and others); and routines, tasks and culture.

Knowledge transfer, thus, involves actively the members of an organization and its technologies, also in terms of tasks and processes. In a business successions, both incumbent, successor and the rest of the organization are involved in a process of knowledge transmission, absorption and reuse. From the quality of such transformation on the repository of knowledge may foster or hamper the final result of the succession process.

The knowledge repositories play a dual role in knowledge transfer in organizations during business succession (Argote and Ingram, 2000, p. 152). On the one hand, the knowledge repositories modify when knowledge transfer occurs. The change in the form and content of knowledge repositories, thus, represent the outcome of the knowledge transfer process. On the other hand, the form and content of the knowledge repositories affect the processes and outcome of knowledge transfer. In summary, knowledge can be transferred by moving a knowledge reservoir, or by modifying a knowledge reservoir at a recipient site. The reservoir at the recipient unit can also be modified through communication and training (Argote and Ingram, 2000).

As suggested by Szulansky (2000), three factors affect the intrafirm knowledge transfer, namely, the characteristics of the source of knowledge; the characteristics of the recipient of knowledge; and the characteristics of the organization. A significant component of the knowledge that organizations acquire, especially tacit knowledge, is embedded in individual members. This is also the most difficult type of knowledge to be transferred and it depends on the relationship and on the quality of the recipient and the source of knowledge. In a business succession process we are interested in understanding the conditions and the means through which knowledge is transferred from the incumbent and the designed successor.

Knowledge can also be embedded in an organization’s tools and technology. If it so, knowledge transfer may occur in a more efficient and effective way, since it is explicit in nature, thus, easier to capture and use. Explicit knowledge embedded in technology has been found to transfer more readily than knowledge located in other repository (Zander and Kogut, 1995). As a consequence, the characteristics of the organization in terms of technology, processes, managerial tools, hardware, software and so on, represent both a support for the knowledge transfer from the recipient to the source, but also become an additional repository of knowledge.

The Theoretical Framework
Based on these foundations derived from the relevant literature, we structured the theoretical model upon the following dimensions:
Characteristics of the Successor: He/she represents both a source of knowledge and the recipient of the knowledge transfer process whose characteristics impact on its efficacy. That includes the formal education and training received, the personal motivation and commitment on the venture, the intimacy with a and the trust with the source of knowledge, the experience and responsibilities within the business, the level of IC detained, and the level of responsibility covered in the organization.

Characteristics of the Incumbent: He/she represents the main source of knowledge in small firms. We focus on characteristics, such as the attitude toward delegation, observation and supervision of the successor’s activity, the motivation and commitment on the process, and the intimacy with the recipient of the knowledge, the level of IC detained and the level of responsibility covered within the organization.

Characteristics of the Organization: The organization and its members may represent both a source and a recipient of knowledge. Indeed, the incumbent may decided to transfer his/her knowledge towards a manager, or an employee. On the other hand, the organizational processes and tools may store and made available previously tacit knowledge. That includes the availability of managerial tools and processes, such as business plan, management accounting systems and ideas, integrated information systems and the presence of managers within the organization.

As represented in Figure 2, the above dimensions are interrelated and need to be considered in their systemic relationship.

Figure 2: Theoretical Model of Business Succession: An IC Perspective

However, the relationship between the incumbent (source of knowledge), the successor (source and recipient of knowledge) and the rest of the organization (source and recipient of knowledge) should be based on intimacy and trust. The effectiveness of such exchange depended on the strength of the tie between the parties involved (Hansen, 1999), which is reflected in the intimacy of such relationship. Besides, the source of knowledge must be
considered trustworthy by the recipient in order to be accepted (Szulansky, 2000). High level of mutual trust and honesty has been observed inside family firms (Pollack, 1985; and Dyer and Handler, 1994). Mutual trust and honesty is considered a favorable condition to reduce transaction costs, improve the communication processes and thus the transmission of information and knowledge (Szulansky, 2000).

In a similar stance, Rulke et al. (2000) introduce the concept of relational learning channels that are activated among subjects, demonstrating their role in fostering the self-knowledge of an organization, and an individual alike. The relationship between the source and the recipient of knowledge must be intimate, based on reciprocal trust and continuous in order to be effective.

The time spent together and the quality interpersonal interactions among the actors is considered to be two antecedents in the transfer of tacit knowledge and intuition (Brockmann and Anthony, 1998). Tacit knowledge can also be defined as an intellectual and cognitive process not expressed or declared openly (Wagner and Sternberg, 1986). It includes intuition, which manifests in decisions made without formal analysis (Behling and Eckel, 1991). The only way to absorb tacit knowledge is through observation and practice, but it takes time and depends on the quality of the interpersonal interactions and skills of the persons involved.

The Characteristics of the Successor

The characteristics of successor is one of the influential factors on the succession process (Cabrera-Suárez et al., 2001; Brockhaus, 2004; and Venter et al., 2005). The successor needs to have basic business skills and knowledge, through formal education and training period (external and/or internal to the firm), but also deeper information about the family business (Stenholm, 2003). The successor abilities have two intertwined effects on family firm. The successor's skills, experience and capabilities in leading organizations are important conditions to gain credibility and legitimacy (Barach Ganitsky, 1995; and Chrisman et al., 1998). Besides, the expertise and stock of knowledge of the successor determines the absorptive capacity (Cohen and Levithal, 1990, p. 128) that avoids delays and fosters the ability to exploit the new knowledge.

Early exposure to the family business (Ward, 1987; and Barach et al., 1988), outside work experience (Barach and Ganitsky, 1995), formal education (Goldberg, 1996; and Morris et al., 1997) and training programs (Churchill and Hatten, 1987) are considered factors positively correlated with a smooth succession for the future generation.

Another fundamental requirement is the motivation of successors entering the firm. Motivated and committed successors is considered as desirable attribute in the succession process (Chrisman et al., 1998; and Chirico and Salvato, 2008). Lack of motivation may result in procrastination, passivity or even rejection in the adoption and use of new knowledge (Szulansky, 2000). Stavrou (1998) suggested two main sources of motivation for a successor to continue the venture: becoming his/her own boss, and taking control of the firm’s operations. On this regard, Handler (1990) introduced the concept of
personal need alignment and personal influence. The former relates to the degree by which personal ambitions can be satisfied within family business. Personal influence, on the other stance, refers to the capability to take responsibilities within family business. This is linked to the concept of planned or intentional behavior, as proposed by Sharma et al. (2003). Intentions are moulded by individuals’ attitudes (Krueger, 1993), such as the perceived desirability of the outcomes to the initiator; the acceptability of the outcomes; and the perception that the behavior will actually lead to the desired outcome. Moreover the successor needs to achieve credibility and legitimacy within and outside the organization and the family (Barach and Ganitsky, 1995). This will depend on the knowledge acquired and the leadership abilities, related to management skills, such as communication and motivation (Foster, 1995).

The relationship between the successor and the predecessor is the basis of a successful process. Tacit knowledge can be transferred and assimilated through the establishment of a shared understanding between two or more individuals, which includes common schemes and cognitive structures, metaphors and analogies, as well as anecdotes (Grant, 1996). This helps in creating a progressive transfer of tacit knowledge, both at an organizational level and an individual level. The transfer of complex and casually ambiguous practice requires reconstruction and adaptation by the successor (Kogut and Zander, 1992). It entails comparisons, exchanges of information and confrontations between the successor and the incumbent. Indeed, Watson and Hewett (2006) argued that the effectiveness of intrafirm knowledge transfer depends also on the rate at which individuals access and reuse knowledge within the system.

Tacit knowledge embedded in the owner-manager’s experiences and skills can only be transferred through observation, and thus direct practice in different decisional and managerial processes. Observation of the owner-manager (or managers where present) through tracking their work practices will foster, as the literature suggests, the flow of tacit knowledge, triggering a learning by doing process. Activating such a process (involving both the incumbent, the successor and the rest of the organization) may lead to an acceleration of knowledge creation and transfer, overcoming the causal ambiguity that generates stickiness. Causal ambiguity is a signal of the absence of ‘know-why’, rather than of ‘know-how’ to perform a certain task or attain a specific outcome. Moreover, knowledge that has been put to use for a brief period of time or on a limited scale or scope, may prevent its use. This reflects Nonaka and Takeuchi’s (1995) proposed pattern of the transfer of tacit knowledge between individuals, through, for example, observation and continuous use and reuse.

Another important aspect is the ability of the successor to enter into the social network within and outside the organization. This means entering into a dialog with the stakeholders, like employees, customers, suppliers and so on, and gain respect and legitimacy. Customer and suppliers of a family business are often accustomed to interacting directly with the owner (Lansberg, 1988), creating a personal relationship based on trust. For the successor to enter in such a network is not an easy task, and it may cause the loss of key customer or suppliers. The education, training and the relationship with the incumbent
may foster the development of decision-making abilities, interpersonal skills, intelligence and self-confidence. The transfer of social capital should be object of a deliberate and planned transfer allowing the actors involved to reconfigure and reconstitute the network structure and content (Steier, 2001).

For the successor, it might mean moving using Trott et al. (1995), from translation and interpretation of knowledge, towards the final step of assimilation and commitment. However, acquiring knowledge and learning also involve the ability to ‘unlearn’ (Huber, 1991; and Bettis and Prahalad, 1995) the path dependent management practices that are no longer useful. Indeed, in the case of a radical change, as a business succession, the existing stock of knowledge and the path-dependence of learning can ‘lock-in’ (Dossi and Teece, 1993) the firm. This may lead to future problems, particularly in highly competitive and technological environments (Powell, 1998).

Perren and Grant (2000) highlighted how owner-manager tends to create a micro-world in order to maintain his/her autonomy, power and control over organization. The reconstruction and the adaptation of the receiving knowledge become inevitable in case of presence of complex and casually ambiguous knowledge (Kogut and Zander, 1992). In such case, the transfer takes time, and requires frequent exchanges and relationship in order to translate it in a comprehensible manner for the recipient.

The Characteristics of the Incumbent

In our framework, the incumbent represents the most relevant repository of knowledge in small firms that needs to be transferred, integrated and absorbed by other repository (e.g., the successor, and/or the organization). The incumbent must be motivated and aware of the necessary steps towards business successions and the progressive loss of power and active role in the day-to-day and strategic decision. Several authors (see Dyer, 1986; and Ward, 1987) suggest the relevance for the incumbent to overcome the anxiety related to the process of letting go the business. Some compare the fear of losing control as the fear of facing death (Barnes and Hershon, 1976), which may lead to refuse succession and to the business 'euthanasia' (Danico, 1982).

The source of knowledge must collaborate and put efforts to support the transfer. Of course, the process will not happen overnight and must be planned and managed. The initial step is the awareness of this need, and the motivation and active involvement of the incumbent. Owner-managers should change from being keepers of knowledge to being its providers and disseminators. Knowledge transfer may happen only with a continuous personal and professional relationship between the actors. The effectiveness of such exchanges depends on the strength of the ties between the recipient and the source of knowledge (Hansen, 1999), reflected in the ease of communication and the intimacy of family relationship. As suggested (Szulansky, 2000), the motivation of the source of knowledge to facilitate access to the successor may influence the efficacy of the transfer. The incumbent may fear to lose a position of privilege and superiority, and become dispensable over time.
The characteristics of the incumbent, thus, play a fundamental role in all moments of the succession process. The incumbent should be able to transform his/her role over time through the devolution of function and the supervision of the successor and organizational developments. Barach and Ganitsky (1995), among others, demonstrate the fundamental role of the incumbent's ability and willingness to delegate and let the successor practice, experience and make his/her own decisions and mistakes. The incumbent should involve the successor, but also devolve functions and power, while maintaining a supervision and observing role. In the later stage of the process, the owner-manager may cover a role of external consultant for strategic decisions, until his or her final exit from the firm (Handler, 1989). The predecessor tend to manifest some inhibiting traits, such as mistrust, control every details, being negatively aggressive (Barach and Ganitsky, 1995). It is not surprising that the predecessor's inability to let go and to create a positive relationship with the successor and the other members of the organization is the most cited obstacle to effective succession (Sharma et al., 2001).

The interplay between successor and incumbent is also related with the transfer of the social capital of a firm above described. The latter needs to be maintained in order to foster a smooth succession. Social capital is strictly linked to the firm's reputation gained in the market through specific behavior and relations with different stakeholders. Corporate reputation is involved in shaping and hopefully, ameliorating the interorganizational relations (Fombrun and Shanley, 1990). In small firms, the owner-manager is the front-runner in creating reputation and image of the firm, until the successor develops his/her own legitimacy and recognition from the stakeholders (Ambrose, 1983; and Le Breton-Miller et al., 2004). Also in this circumstance, the owner-manager should be able to devolve, supervise and observe, rather than merely control through holding on to his or her previous power and role.

This analysis is transferable to any other subject within the organization who may take up the role of successor's mentor. Indeed, in more structured family firms, knowledge can be located in other employees, usually those with specialized functions.

The Characteristics of the Organization

Having adequate characteristics of the recipient and the source of knowledge does not guarantee an effective transfer and absorption, since the characteristics of the organization context may interfere. There could be impediments on the transfer and the recipient sides of tacit knowledge. Szulansky (1996) suggested the need to create a ‘fertile’ organization, through, for example, formal structure and systems. Small firms tend to be loosely coupled, founder-centered and with a low development of operative systems. As a consequence, the organization is not capable to retain and to develop knowledge independently from the owner-manager presence, and it would not be able to support the succession process. On the contrary, the delegation of responsibility towards some key employees (if not the creation of management functions), the introduction and development of a management accounting culture and tools might reduce the risk of loss of knowledge and failure due to the succession. Owner-managers tend to concentrate on several functions and the successors might not be
able to take on all of these. In such a situation, business succession becomes more likely to fail without an adequate planning and awareness of the step to be taken. In a growing business, the creation of a management team will make the succession process easier in terms of business functionality.

Other important managerial tools that might support knowledge accumulation and transfer are several, such as a business plan, Management Accounting System (MAS), integrated informative systems. MAS contributes to activate learning processes of the inner functioning of the organization. In so doing, it represents a tool to formalized tacit knowledge, understanding the ‘know-why’ and ‘know-what’ that are involved on a certain output. MAS, to be efficient, calls both for Human Resource Management (HRM) and Information Technology (IT) investments. Indeed, human resource management and investments and information technology investments tend to have a higher influence on IC development (Youndt et al., 2004). MASs are recognized to overcome the cognitive limitations of the members of the organizations. People tend to look for the information that confirm their mental models, rather than look for the evidence to make the most appropriate decision (Hogarth, 1987). The introduction of MASs supports the alignment between the mental models of the organization members involved in the process (de Haas and Algera, 2002). As a consequence, through MAS the successors and the incumbent may attain a common operational and strategic vision of the business sharing the same stock of formalized information and knowledge.

On a similar manner, business planning is one of the key factors in firms success (Drucker, 1973). Usually small businesses do not have a specific orientation in planning and rarely do they have a formal business plan. Indeed, in small family businesses, planning is based on personal perception and intuition by the owner-manager, it is not generally formalized into documents and processes. The business idea may stick in the mind of the incumbent, the management and other family members are marginally or not involved in this mental process. As such, there is no shared situational analysis or future action plan among various family members in a family business (see Handler, 1991; and Fox et al., 1996). Formalizing a business plan means involving the successor and the management to share the analysis of the business, the process of selecting the strategy and the future plans of the firm. It can serve as a tool and a process for learning and explicating tacit knowledge usually contained in owner-manager’s mind and intuition. Business planning, however, has also demonstrated its utility in improving strategic decision making uniting the whole organization and, hence, reducing the risk of failure (Perry, 2001).

The literature generally shows that very small businesses have little, if none, management information system, and decision making is not formalized. The investment in highly expensive managerial tool or the cost of a manager might not be justified by the overall economic benefits. However, there is some empirical evidence on how small businesses are able to introduce and to develop management accounting idiosyncratically (Perren and Grant, 2000). It means that, MAS are developed internally without intervention by outside parties (consultant, software companies, etc.), in order to acquire effective information and control
through often informal means. In this sense, regardless of the size of the firm (small or very small) it would be possible to find in both cases forms of managerial culture crafted within the owner-manager’s business, or influenced of macro-level objectified management accounting ideas (Perren and Grant, 2000, p. 392). In the former case, the knowledge embedded in the decision-making process must be reframed and transferred towards the rest of the organization (employees or more formalized means) or the successor through delegation. The formalization of such micro-world and/or the introduction of managerial ideas, objectified by the external world, represents two ways to support the succession process.

Technologies and routines represents other important source of knowledge (Argote and Ingram, 2000). Explicit, codified knowledge that is embedded in technology has been found to transfer more effectively than other knowledge, although it may leak-out of the organization more easily (Mansfield, 1985). Knowledge can be also embedded in an organizations’ tasks and routines formalized in the production process and made explicit. Some studies examined how routines or tasks can be used to transfer knowledge among units or individual members (Gersick and Hackman, 1990).

In dealing with business succession is thus relevant to take into consideration the characteristics of the organization, in terms of structure, technology, individual members, tasks and routines. They may represent both a source and a recipient of knowledge, as well as being directly involved in the processes of introduction and development of the potential successor. Indeed, the lack of trust and conflicts between the successor and the non-family members of the organization may hamper the knowledge transfer and creation, as well as, prevent intra-family succession (De Massis et al., 2008).

Model’s Applicability and Contribution

The integration of the three dimensions permits to visualize the theoretical model as a tri-dimensional map (see Figure 3). Each dimension may span from low to high level, so that it is possible to envisage a tri-dimensional space in which small firms may be located. This will help in understanding the main criticalities in the business processes and to better design the succession in family firm, with particular reference to ones which are small in size. The eight dimensions consider two extreme situation: the high-high-high dimension presents the most favorable condition in which it is possible to activate a process of knowledge transfer, leverage and development during the succession process. On the contrary, the low-low-low dimension represents the least favorable condition in which the succession may face serious problem to deliver effective change. In this situation, most of the factors that may impede or prevent the business succession are likely to arise, such as inadequate successor, dissatisfaction, conflicts, motivation, loss of mutual trust with stakeholder and so on (De Massis et al., 2008).

The map is hermeneutic, in the sense that all elements are interrelated and mutually implicated, and can be considered as a lens through which understand the succession process. In this sense, it may understood as a skeleton theoretical framework that need to be fleshed-out with empirical investigation (Laughlin, 1995).
The model allows enough flexibility to be adapted to very different contexts and avoids pre-tailored solutions. The final aim is to develop a process of enlightenment through which both the incumbent and the successor can share the vision on the succession path along the different dimensions involved. However, the theoretical model does not make any a-priori judgment about the nature of the risks in the succession process. In this regard, the model may be applied to all types of small businesses, regardless of the product, the market served and the typology of succession. It allows both the researcher to identify and describe the criticalities a small business may face, and the incumbent and successors to activate a shared understanding and agreement on the actions to be taken in order to foster a smooth succession.

Moreover, it clarifies the connection between the management of IC and the business succession process. Rather than focusing only on what incumbent and successors should do (independent variables) to achieve a successful outcome (dependent variable), the model also considers the organizational perspective and the IC outcomes as independent variables.

The research implications are clear-cut. Empirical studies may test the relationships suggested in this paper, and in particular to what extent the characteristics of the incumbent, successor and organization affect the business succession outcome. Moreover, the model presents scope for further development by taking into consideration additional factors affecting the stock and flow of knowledge during the succession process. It may be interesting to explore how relevant knowledge is practically transferred among incumbent, successor and the organization.
Further, the model could also be applied to other firm’s strategic change, where the IC needs to be recombined or changed in order to cope with new internal and external conditions.

On this vein, the model also addresses some recommendations for practitioners. In the first instance, small family businesses should focus on what they have based the competitive advantage (e.g., the IC), and define the appropriate decisions and actions to maintain and increase the stock and flow of IC (Mouritsen, 2004). More in detail, the practitioners should pay particular attention to the flow and management of knowledge from the incumbent to the successors or the organization, working on the quality intellectual capital. The practical interventions can be directed towards the successors, the incumbent or the organization. However, the relationship among the three factors must be taken into account. The quality relationship among the successor, the incumbent and the other members of the organization is fundamental to create an environment that fosters the transfer of knowledge. As recently suggested, open and collaborative communication among actors, and their active participation to radical changes are fundamental to overcome resistance to changes (Chirico and Salvato, 2008). Our model suggests the need for the incumbent generation to allow the new generation to take part in the decision-making process, and to contribute with his/her stock of knowledge. The incumbent should then accept to consider new ways of doing operations, and new ideas coming from the new generation. Accordingly, we considered the need for the successor to accept the existing stock of IC, appreciating the previous generation’s knowledge and contribution to the firm.

Besides, the new and old generations are required to allow the rest of the organization to become more involved in the process of knowledge creation, investing in people, and managerial and technological infrastructures.

Conclusion

Business succession represents a wide-world issue affecting economic and social development. Besides, over the last decade IC management has come to be considered the prime basis for business’s sustainable competitive advantage. Both topics have received high levels of attention from academics, consultants, policymakers and practitioners, resulting in a blossoming literature. Despite the relevance of both issues, little or no efforts have been directed within the context of small businesses.

In this paper, we argued that family business succession in small settings may be fruitfully understood and managed as a process of IC and knowledge transfer. Family firms are considered to have some distinctive assets. Their competitive advantage is based on the tacitness of the knowledge embedded in these resources (Habbershon and Williams, 1999; and Cabrera-Suárez et al., 2001), and prominently in the incumbent’s experience and expertise. Indeed, the founder’s tacit knowledge is the strategic assets that need to be transferred and developed, especially in small businesses.

The study aims to contribute to the on-going discussion through the integration of IC management within the business succession in small family businesses. The IC perspective provides an accepted managerial and accounting framework able to guide researchers and
practitioners in dealing with business problems. This calls for researchers to pay more attention to the role of IC in explaining the competitive advantage of the family business and the successful or unsuccessful family business succession.

Intergenerational transfer should represent an opportunity for the family business to give continuity and improvement to its competitive advantage. Our model suggests two main ways: (1) Through the transfer of IC from the incumbent to the successors; and (2) Through the development of IC within the organization in terms of professionalization and empowerment of employees, investments in IC and through formalization managerial tools. As depicted in Figure 4, any small family firm would enter the succession process with its own stock of IC and it would end the succession process with a different level of IC in types and content. Such a change depends on the characteristics of the knowledge repositories, namely, the incumbent, the successor and the organization. The model support researchers and practitioners in understanding the transformation from IC$_{t1}$ to IC$_{t2}$, but most of all to foresee the most appropriate actions, along the succession process, in order that IC$_{t2}$ is as competitive as IC$_{t1}$ if not more.

The theoretical model offers an integrated perspective allowing the researcher to further develop the understanding of the variables involved in business succession in small organizational settings. Moreover, it helps the incumbents and successors to start a communicative process of self and shared reflection, in order to plan lines of action.

We believe that future research should go further in understanding the role of IC in small family business and its management during the business succession. It would be also fruitful to compare family and non-family business, as successful and unsuccessful succession process, in order to appreciate the uniqueness of family contribution to the performance.

The present work shed some lights on the neglected research area of IC in small family businesses, and offers a theoretical support to some recommendations and evidence often sparsely presented both in family business and IC literatures.
To conclude, this study has sought to contribute to the literature by filling the gap on family firm succession seeking to gain an understanding the factors that affect the IC in small firms. We propose a model that can form a basis for future research in this topic, shedding light on how knowledge is maintained, transferred and leveraged during the succession process through the interaction of the incumbent, the successor and the organization. Further research in this would strengthen the understanding about the IC management in family firm during the succession process, in the search of maintaining or/gaining sustainable competitive advantage over time.

Limitations

We are aware, however, of some limitation of the theoretical model. First, it needs to be empirically tested, both through qualitative and quantitative studies. This would allow to verify and improve its structure, and define the internal content and representation of the variables considered.

Secondly, we limited the focus of analysis on the dynamics affecting the IC in small family firms. Additional variables and perspectives are involved when dealing with family business successions, such as governance structures, the relationships among successors and the family, family dynamics (divorce, conflicts, etc.), premature loss of the incumbent or the absence of a viable successor.

A family context characterized by harmony, shared values and principles is more likely to foster quality relationships among the family members. Family firms are considered to be potentially an ideal context to develop misunderstandings and conflict (Miller and Rice, 1988; and Boles, 1996), if compared with non-family business. A high rate of conflict could be detrimental to individual and group performances, even though it is also recognized to have potentially positive outcome, such as the promotion of innovation and creativity (Cosier and Harvey, 1998). The family context is thus an important aspect to further investigate where conflicts may rise and be resolved, influencing firm performance, either in a positive or negative way.

Another relevant issue, beyond the purpose of the study, is related to the financial implications that the succession may entail. Financial factors may play a role in preventing succession (Parrini, 2000), to cope with tax burden, and to liquidate the possible exit of heirs (De Massis et al., 2008). This is amplified in small family firms characterized by a notorious lack of financial resources.

Moreover, we assume that ‘high’ characteristics of the incumbent, the successor and the organization may lead to more favorable conditions for knowledge transfer, generation and sustainability of the competitive advantage. Even though it is not in our purposes, among these highly qualified actors conflicts may arise, communication slacks may impede dialogue, hampering the possibilities for a successful succession.

The contribution of the authors can be divided as follows: §Introduction, Business succession in family firm: An IC perspective, Small business and the consequences for IC,
Knowledge repository and management in business succession, The theoretical framework to Enrico Bracci; Model’s applicability and contribution, Conclusion and Limitations to Emidia Vagnoni.

Bibliography


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