The Succession Process from a Resource- and Knowledge-Based View of the Family Firm

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A major challenge facing the family firm is the succession process. One reason for this challenge might involve the successor's ability to acquire the predecessor's key knowledge and skills adequately to maintain and improve the organizational performance of the firm. This paper uses two theoretical approaches from the strategic management field to explore this critical process and analyze how it can be managed effectively: the resource-based theory of the firm and the emergent knowledge-based view. This conceptual framework provides a powerful tool for understanding the nature and transfer of knowledge within the family business, which becomes the basis for developing competitive advantage over nonfamily businesses.

Introduction

The importance of family businesses to the economic systems of most countries is responsible for an increased interest in recent years in studying these firms from different perspectives, including that of strategic management. Ward (1987), Harris, Martínez, and Ward (1994), Wortman (1994), Sharma, Christman, and Chua (1997), and other authors defend the importance of approaching family dimensions and problems from a strategic management view. Moreover, they emphasize the relevance of studying the way in which family issues affect the business strategic management process, goals, and performance.

Although the basic strategic management process is similar for both family and nonfamily firms, there are several important differences between them. These differences, based on the owner family's goals, values, and influences, relate to the goals they seek, the way they perform, and the people who participate in the business. Thus, the key to determining the differences between family and nonfamily firms is to determine their distinctive aspects and how they may play a part in gaining a competitive advantage. In the end, competitive advantage is the cornerstone of strategic design, and the resource- and knowledge-based views of the firm are two new perspectives from which to address this matter.

In this paper, we use the resource- and knowledge-based views of the firm to identify the possibility of special family business features – in particular, the tacit knowledge embedded in its founder and its transmission, which can become a source of competitive advantage. The strategic importance of knowledge transfer in family businesses can help in the discussion of the succession problem and the successor's training – key processes in developing and protecting that knowledge and guaranteeing the continuity of the family business.

Knowledge as a Family Business Strategic Resource

The resource-based view was recently developed in the strategic management field as a new framework in which to study the competitive advantage of a firm. According to resource-based theorists (e.g., Penrose, 1959; Wernerfelt, 1984;

Barney, 1991; Grant, 1991; Peteraf, 1993), bundles of resources, rather than the product market combinations chosen for their deployment, lie at the heart of a firm's competitive advantages. This approach requires that the firm be seen not through its activities in the product market but as a unique bundle of resources that are complex, intangible, and dynamic. Because family firms have been described as unusually complex, dynamic, and rich in intangible resources, the resource-based view provides researchers in the field of family businesses with an appropiate method for analyzing them (Cabrera-Suárez & De Saá-Perez, 1996; Habbershon & Williams, 1999).

According to Amit and Schoemaker (1993), a firm's resources are defined as stocks of available factors that the organization owns or controls. Resources are converted into final products or services by using a wide range of other firm assets and bonding mechanisms, such as technology, management information systems, incentive systems, trust between management and labor, and so on. Thus, capabilities refer to a firm's capacity to deploy resources, usually in combination and applying organizational processes, to effect a desired end. Capabilities are information-based, tangible or intangible processes that are firm specific and developed over time through complex interactions among the firm's resources. Unlike resources, capabilities are based on developing, carrying, and exchanging information through the firm's human capital.

Although a firm might have plenty of resources and capabilities, this is not sufficient to guarantee success. Competitive advantage comes from distinctive resources or capabilities that firms control – that is, something that firms do particularly well in comparison with their competitors. According to Peteraf (1993), four conditions must be met for a firm to enjoy sustained above-normal returns: heterogeneity, ex post limits to competition, imperfect mobility, and ex ante limits to competition. Resource and capability heterogeneity create Ricardian or monopoly rents. Ex post limits to competition prevent the rents from being lost to the competition. Imperfect factor mobility ensures that valuable factors remain with the firm and that the rents are shared. Ex ante limits to competition keep costs from offsetting the rents (Foss, 1997).

In analyzing the family business, there are some strategic resources and capabilities that may bring about competitive advantage. One feature of a family firm is the high degree of members' commitment and dedication. This feature is observed in family members, who believe they have a common family responsibility, as well as in other employees, who feel they are part of the team and display a more enthusiastic attitude than employees of nonfamily businesses (Ward, 1987; Leach, 1993; Gallo, 1995). Likewise, customers' trust and perceptions of quality are characteristic of family businesses. Moreover, such firms often maintain their own ways of doing things – a special technology or a commercial know-how that distinguishes them from their competitors. These and other rare, valuable, invisible, and imperfect imitable assets of family firms enable them to develop, choose, and implement strategies that firms without these assets are unable to do. Thus, the family business's unique features (commitment, shared values, culture, trust, reputation, and so on) give it certain strategic resources and capabilities that could account for its long-term success (Cabrera-Suárez & De Saá Pérez, 1996; Habbershon & Williams, 1999).

At this point, let us say, along with Habbershon and Williams (1999), that the bundle of resources and capabilities that are distinctive to a firm as a result of family involvement is the "familiness" of the firm. More specifically, *familiness* is defined as the unique bundle of resources and capabilities a particular organization possesses because of the family firm system's interaction among the family, its individual members, and the business.

However, to perform well, a firm needs more than its bundle of resources and capabilities. It also requires the tacit collective knowledge embedded in the firm's routines to integrate, coordinate, and mobilize those resources and capabilities successfully (Grant, 1991). In that sense,

the firm's specific knowledge, as well as the ability to create and transfer it, are considered a key strategic asset that may be positively associated with higher levels of performance because they are difficult to trade and imitate, scarce, appropriable, and specialized (Nonaka & Takeuchi, 1995; Bierly & Chakrabarti, 1996; Spender, 1996; Teece, 1998).

The development of this approach, held by the resource-based view of a firm (Grant, 1996), gave rise to a new theoretical stream of growing importance in the strategic management field: the knowledge-based view of the firm. According to Leonard and Sensiper (1998), knowledge can be defined as "information that is relevant, actionable, and based at least partially on experience." This view of knowledge includes contextual information, framed experience, values, and expert insight (Davenport & Prusak, 1998). For this reason, knowledge permits a reduction in uncertainty (Beijerse, 1999) and makes reality meaningful.

The knowledge-based approach of a firm tries to analyze how organizations create, acquire, apply, protect, and transfer knowledge. Thus, Bierly and Chakrabarti (1996) believe that competitive advantages could be generated on the basis of the knowledge possessed by a firm and the ability to develop it.

In this view of the firm as a body of knowledge (Spender, 1996), the taxonomy of the knowledge elements becomes a core aspect of the approach. The most powerful and recognized tipology in the field is that which differentiates between explicit and tacit knowledge (Polanyi, 1966; Nonaka & Takeuchi, 1995; Tsoukas, 1996; Nonaka & Konno, 1998). Thus, explicit (articulated or codified) knowledge is that which can be transferred by way of a systematized language or code, and there is no need to link it to a very specific context for it to be meaningful. In that sense, many of the elements in a firm that contain information (internal and external statistics, product descriptions, and so on) are examples of explicit knowledge because of their easy transfer.

On the other hand, tacit knowledge relates to the kind of knowledge that can hardly be expressed or formalized – as Teece (1998) remarks, "We know more than we can tell." The reason is that tacit knowledge appears and develops through the interaction between an individual and the situation, becoming context specific. In this concept of tacit knowledge, Nonaka and Takeuchi (1995) include mental schemes, beliefs and insights (which are crucial to perceive and define the environment), as well as the ability, know-how, and skills to perform tasks.

These ideas may contribute to explaining a potential source of family business competitive advantage. In this sense (as we have argued), for a family firm to be successful, it must identify its resources and capabilities. Once a family firm's resources and capabilities are identified, they can be assessed to determine under which conditions they can provide a competitive advantage. This familiness enables a firm to conceive of or implement strategies that improve its efficiency and effectiveness.

But to have a sustainable competitive advantage, this familiness bundle must be properly assessed and managed, and the organization must invest in replenishing, augmenting, and upgrading it (Grant, 1991). The kind of knowledge needed to understand this strategic process has strong tacit elements (Fernández, 1993), that is, the information about the familiness bundle is frequently embedded in certain individuals, generally the entrepreneur/family business founder. Therefore, understanding the importance of knowledge transfer in the succession process may help develop and maintain competitive advantage in family firms.

Transferring knowledge internally sets the basis for innovating and improving efficiency, thus realizing the potential value of that knowledge (Davenport & Prusak, 1998). Nevertheless, knowledge does not always flow easily within the organization; its tacit elements hinder its mobility. With explicit knowledge, the ease of transfer between source and recipient defines its essence – such a transfer shows that

both entities can possess that knowledge through transmission by codes or symbols (Kogut & Zander, 1992). On the other hand, an individual's or group's tacit knowledge is embedded in the context in which it was developed, so its transmission is very difficult and possible only by its application in practice through a slow and costly process (Grant, 1996; Szulanski, 1996; Brown & Duguid, 1998; Wareham & Gerris, 1999).

This process of transfer implies that the source and the recipient of the knowledge maintain a continuous and direct contact. Thus, the source's know-how is apparent through the recipient's ability to capture and internalize the nuances associated with this tacit knowledge. This way, the recipient can assimilate (often unconsciously) the idiosyncratic characteristics of the knowledge and its context. This aspect is particularly important in the family business, especially with regard to the training of the founder's sons and daughters: in that generational transfer process, preserving the familiness bundle, which is the basis for the competitive distinctiveness of the firm, is critical.

Szulanski (1996) presents a model of the barriers that can hamper the effective transfer of knowledge inside a firm. According to the author, the obstacles can be divided into four groups. The first one relates to the characteristics of the knowledge transferred, the major problems being the causal ambiguity of the knowledge and the fact that it is unproven. The second refers to the characteristics of the source, specifically his or her lack of motivation and being perceived as unreliable. The third set of barriers refers to the recipient of the knowledge and his or her characteristics: lack of motivation as well as lack of absorptive and retentive capacity. The last group of obstacles relate to the context where the transfer develops, such as a barren organizational context and an arduous relationship between source and recipient. This model suggests interesting perspectives to consider in the succession process of the family firm: by observing the predecessor as the source of knowledge and the successor as the recipient, the described barriers illustrate elements that impede the effective transfer of knowledge in the generational succession.

Knowledge Transfer and the Successor's Development

This paper proposes an integrative model for the knowledge transfer and the successor's development in the family firm (see Figure 1).

Resources and capabilities play an important role in creating and developing competitive advantages. Our discussion about the importance of knowledge and its transfer offers an additional view of the relevance of the succession issue in family businesses (see Figure 1). Most researchers in the field consider the succession issue the major problem facing family businesses (Handler, 1994). This is the case because "...if knowledge is the main resource supporting a competitive advantage, its transferability will determine the period in which its owner can get rents from it" (Spender & Grant, 1996). This way, if excellence in performing certain activities is key for competitive advantage, then learning must play a central role in a business's competitive position (Fiol & Lyles, 1985; Pisano, 1994).

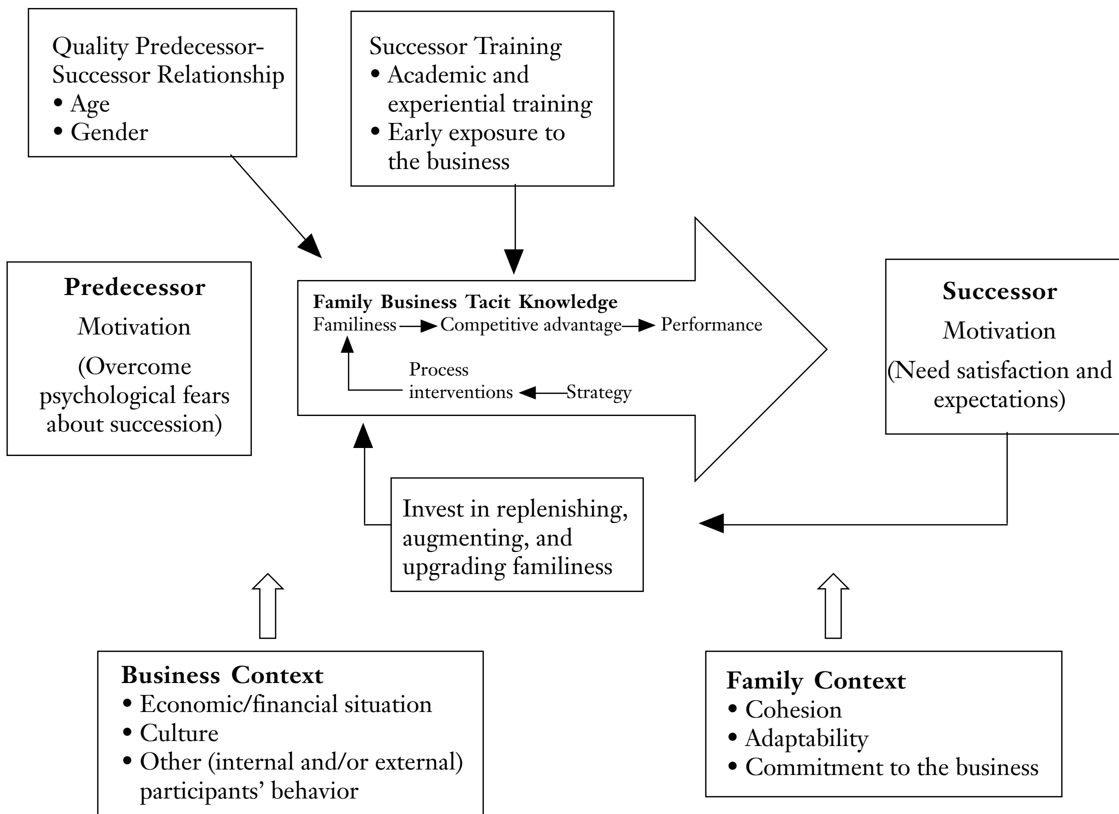
Some authors refer to the topic of succession as an act or isolated event, as in the "transfer of the baton" notion (Vancil, 1987). However, there seems to be a growing consensus about succession being considered more a process than an isolated event. From the process perspective, succession is considered a multistage process that involves, in the ideal case, a growing involvement of the successor in the business. At the same time, the predecessor reduces his or her involvement until a real transfer of power in the organization takes place. It is a slow, evolutionary, and mutual role-adjustment process between the founder and the next-generation family member (Handler, 1989). Thus, every stage of the process can be associated with the particular role behavior of the predecessor and the successor. The transition from one stage to another can, in turn, be considered a transition in that role behavior. It is, therefore, a process where the individuals involved are able to understand the other's

behavior and adjust his or her own role accordingly.

From this discussion, as well as by the high number of failures when family businesses face this process in their evolution, we can infer that the succession issue is not simple (Leach, 1993; Gallo, 1995). On the contrary, a successful transfer of ownership depends on multiple factors that influence its correct development and guarantee the viability of the business, the family integrity, and the satisfaction of the participants' needs and interests. Therefore, the study of succession should take into account the perspective of the different stakeholders that interact at different levels. Stakeholders include the founder or predecessor, the successor, other family members, other managers, the owners, and other agents in the business environment (Lansberg, 1988; Handler & Kram, 1988; Handler, 1994; Barach & Ganitsky, 1995; Harvey & Evans, 1995; Fox, Nilakant, & Hamilton, 1996).

Among these factors, this paper addresses those related to the predecessor and successor and the relationship between them. This paper's premise that the most valuable resources and capabilities for family businesses are those based on the information and the tacit knowledge that are usually linked to the business founder helps justify our interest in the factors related to

Figure 1. Model of Knowledge Transfer and Successor's Development in the Family Firm



predecessor and successor and their relationship. Also, successors are the ones who must, ultimately, pass the trial by fire of the succession process. Thus, their attitudes, abilities, and performance can satisfy the goals of the participants in the process and lead the family business to a new stage of progress (Barach & Ganitsky, 1995).

Whether or not the successor is able to pass this trial by fire will depend to a great extent on his or her capability to adapt to the position of maximum responsibility in the firm by achieving credibility and legitimacy (Barach, Ganitsky, Carson, & Doochin, 1988; Barach & Ganitsky, 1995). One of the key variables in this process of achieving legitimacy is the training the successor receives, enabling him or her to assume the top management functions. The question, then, is how that training process must develop and what the training must consist of to transmit and preserve the distinctive capabilities of the family business. For this goal, it is necessary to differentiate between acquiring knowledge of the business and acquiring leadership abilities (Ward & Aronoff, 1994).

According to Foster (1995), preparing successors to be leaders does not only involve their internalizing all of the aspects of their particular business (i.e., mission, philosophy, products, production processes, suppliers, clients, financing, technology, and so on); they must also acquire knowledge or "recipes" (Tsoukas, 1996) about the industry in which their firm operates (i.e., competitors, financial sources, leaders and important contacts, regulations, history, present and future markets, and so on). Moreover, they must develop certain management skills allowing them to influence other people (i.e., communication, motivation, and other managerial abilities), and they must come to know and understand themselves to be conscious of their own strengths and weaknesses.

Therefore, in this training process, the successor must capture both explicit and implicit knowledge to guarantee his or her future performance in the top management tasks. Such knowledge makes it possible to identify, solve, and even predict and anticipate problems (Leonard & Sensiper, 1998) which, in family enterprises, is vital. The training process is especially relevant when considering that the predecessor is the repository for knowledge of how the main strategic aspects of the business function, particularly during the transfer from the first to the second generation. In turn, the successor has grown up hearing about management strategies, and when entering the business, he or she might have acquired a deep knowledge of it. He or she will be able to assimilate what Tsoukas (1996) labels as explicitly "articulated knowledge" basically by means of academic and experiential training (see Figure 1).

The successor will also integrate the nonarticulated background on which this knowledge is based. This background, assimilated by means of a socialization process, comprises the set of secondary details that are tacitly absorbed by individuals and are located in social practices. Thus, tacit knowledge can be communicated through the establishment of a shared understanding between individuals, which includes common schemes and cognitive structures, metaphors and analogies, as well as anecdotes (Grant, 1996).

Such a view helps to explain the evidence that early exposure to the business through summer and lower category jobs is a valuable experience for successors. This experience proves valuable both in the case of joining the firm immediately after finishing training as well as in joining it after obtaining experience elsewhere (Barach, Ganitsky, Carson, & Doochin, 1988; Cabrera-Suárez, 1998). The successor familiarizes himself or herself with the nature of the business and its employees and develops the specific capabilities needed for the business. As a result, it is easier for the successor to be accepted, gain credibility, and strengthen important relationships within the business.

The main advantage of this process is the progressive transfer of tacit knowledge, both at an organizational (routines, etc.) and an individual (interactions with particular operators) level.

Although it is true that tacit knowledge is easy to protect from possible appropriation by competitors, it is precisely this characteristic that makes it difficult to transmit (Brown & Duguid, 1998). However, this problem is attenuated by the early contacts that the successor has in his or her previous jobs. In addition, the predecessor-successor relationship in the family, as well as the business, makes the successor aware of the predecessor's mental processes, ideas, experiences, and so on. The successor can also absorb tacit knowledge about the business while at home. All of these aspects allow the widening of the successor's knowledge base, giving him or her the absorption capacity (Cohen & Levinthal, 1990; Szulanski, 1996) to assimilate knowledge during the succession process.

Comparing the approaches of family and nonfamily businesses to a successor's development, Fiegener, Brown, Prince, and File (1994, 1996) conclude that the former favor more personal, direct approaches focused on relationships for the successor's development whereas nonfamily organizations rely more on formalized, detailed procedures focused on tasks. These authors observe that family business leaders are deeply involved in mentoring and supervising relationships with their successors because they believe that the close interaction between them and their successors is a superior form of experience supporting development. Thus, this learning method facilitates the assimilation of tacit elements of knowledge by successors, compared with a greater emphasis in nonfamily businesses on the transfer of explicit knowledge.

The particular relationship that links predecessor and successor in the family business gives the future manager a more favorable position. However, family businesses could run a risk because family interaction does not guarantee success in the successor's development. Consider, for instance, a relationship between predecessor and successor that fails to create a suitable environment in which the successor can fully develop his or her potential (Seymour, 1993; Lansberg & Astrachan, 1994; Cabrera-Suárez, 1998).

In the same sense, Szulanski (1996) argues that the quality of the relationship in terms of intimacy and the smooth flow of communication is one of the determining factors in effectively transferring knowledge within a business. Similarly, Handler (1989) states that the better the relationship between predecessor and successor and the more it is characterized by respect, understanding, and complementary behavior, the greater the likelihood of success in the succession process. The reason is that individuals who have a work relationship based on those features tend to feel supported, recognized, and more satisfied with the quality of their experience in the business. These feelings involve the development of trust, feedback, and the capacity for mutual learning and friendship, which is the result of an evolutionary process that begins before the following generation enters the business and continues as the work relationship progresses.

However, it must be taken into account that father-son relationships are usually characterized by a certain degree of ambivalence; on the one hand, a son identifies himself with his father and wants to be like him and, on the other hand, there are feelings of envy and rivalry that originate in the son's childhood when they competed for the mother's attention (Kepner, 1983; Kets de Vries, 1996).

Furthermore, the quality of the relationship between predecessor and successor is influenced by the latter's gender. In this sense, some research on the topic suggests that the father-daughter relationship is usually characterized by a more complementary and less controversial status (Dumas, 1992; Kets de Vries, 1996). Nevertheless, certain traditional sexual stereotypes can limit the female successor's access to leadership functions (Dumas, 1992).

Another factor to be considered in the quality of the relationship is the predecessor's and successor's ages. The relationship tends to be harmonious when the father is in his 50s and the son is between 23 and 32 years old, but problematic when the father is in his 60s and the son is between ages 34 and 40 (Davis, 1982).

Another factor that Szulanski (1996) considers a key determinant in the effective knowledge transfer is the existence of adequate motivation (with regard to the source/predecessor and to the recipient/successor), as shown in Figure 1. The predecessor might suffer motivation problems, feeling that he or she is losing status or importance as the succession process develops. Indeed, it can become a traumatic issue for founders (Lansberg, 1988; Sonnenfeld & Spence, 1989). The predecessor's ability to delegate and promote a business environment in which the successor feels free to make both decisions and mistakes are fundamental to the successor's development (Dyer, Jr., 1986; Cabrera-Suárez, 1998).

In turn, successors might reject or undervalue the knowledge that the predecessor provides. Therefore, Barach and Ganitsky (1995) emphasize that a key feature in a functional relationship must be positive mutual feelings. According to these authors, successors need confidence in themselves to gain the respect of their predecessors – and in such a way that their relationships become increasingly mature (an adult relationship instead of a parent-child one). To address such issues, Matthews, Moore, and Fialko (1999) suggest that parent/leader and child/successor evaluate each other and themselves through a process of cognitive categorization and that these classifications influence the succession process. This quality relationship facilitates adequate training and effective communication.

In a similar sense, Brown and Duguid (1998) state that knowledge is easily transferred in compatible social contexts, and Szulanski (1996) observes that a difficult relationship between the source and the recipient hinders the correct transfer of knowledge. Furthermore, this mature communication is required to reconcile the expectations of both generations regarding succession and strategic issues. To achieve this convergence, successors should accept certain policies of the parents, even if they disagree and, conversely, parents should strive to accommodate certain developmental needs of the successors.

Implications and Recommendations

This paper argues that family firms have some distinctive assets (commitment, trust, reputation, know-how, and so on) that can bring them competitive success based on the tacitness of the knowledge embedded in these resources.

From the discussion in this work, there are several recommendations for practitioners. First, family businesses should focus on what they have traditionally done well and diversify in related areas using their knowledge of how to perform in certain markets with certain clients and by offering certain products and services. In particular, they should take advantage of their potential to transfer that knowledge between generations at managerial and operative levels. This tacit knowledge embedded in the founder is a strategic asset that a family firm can develop and transfer more effectively than a nonfamily one. The reason is that in the case of a family business, there is a special relationship between successor and predecessor that goes beyond work and includes personal and family issues.

However, the appropriate successor training process requires a quality relationship between generations to create an environment that encourages knowledge transference. So, for the owner-manager that means, on the one hand, being willing to appreciate and be proud of his or her successor's achievements and possibilities and, on the other hand, having the flexibility to explore and accept new management approaches. The successor, in return, must appreciate the predecessor's accumulated knowledge and his or her contribution to the firm, not rejecting established work methods and consolidated practices without having considered their value to the firm. This way, the successor must integrate the knowledge transferred by the predecessor in family and professional contacts (family meetings, management team meetings, and so on) with the knowledge acquired during his or her training process to assess and manage the firm's familiness as well as to invest in replenishing, increasing, and upgrading these knowledge bases as valuable resources (Habberson & Williams, 1999).

In addition, we believe that future research on this topic should consider the following. According to the above discussion, the strategic management framework seems appropriate for the analysis of the succession problem as a key factor in family firms' strategic planning. In fact, this work offers theoretical support to certain recommendations often addressed in literature about family firms. In this sense, the resource-based and knowledge-based views of the firm have great potential for future research into family business strategic management.

These two theoretical frameworks help to analyze the process by which successors absorb the family's philosophy and knowledge of how to be good strategic leaders, thereby guaranteeing the continuity of the family firm. In this way, studies comparing family and nonfamily firms, as well as successful and unsuccessful family organizations, are necessary for understanding how families and their relationships can influence the strategic management process and performance. Therefore, an empirical test of the relationships established among the variables that we present in our model is needed.

Moreover, the influence of some other important variables identified in the literature about the succession process that can determine its quality must be considered, such as family relationships in terms of cohesion, adaptability (Lansberg & Astrachan, 1994), commitment to the business (Dyer, 1986; Handler, 1989), and quality of sibling relationships. Also, some other firm characterictics, such as its economic and financial situations, culture, and nonfamily employees' behavior, are factors that can influence the creation of an environment to foster the transfer of knowledge in the family business.

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