Chapter 13

Knowledge Transfer Strategies within Family Firm Succession

Isabella Hatak
WU Vienna University of Economics and Business, Austria
& Johannes Kepler University Linz, Austria

Dietmar Roessl
WU Vienna University of Economics and Business, Austria

ABSTRACT

A firm’s knowledge is considered a key strategic asset in the course of generating competitive advantages. However, especially within family firm succession, there is a high risk that knowledge embedded in the predecessor leaves the organization. Thus, in order to maintain the family firm’s competitive advantage an understanding of the challenges regarding the knowledge transfer within family firm succession is needed. In this chapter, the authors employ a qualitative empirical approach to identify context-based knowledge transfer strategies and develop a typology of transfer constellations. The results provide insight for students, researchers, consultants, policy makers and family firm leaders, who are searching for the most appropriate knowledge transfer strategy given the nature, philosophies and traditions of specific small and medium sized family firms.

INTRODUCTION

A firm’s specific knowledge, as well as the ability and willingness to transfer it, is considered a key strategic asset in the course of generating competitive advantages (Spender & Grant, 1996). Knowledge is viewed as the sum of expertise, skills and abilities applied by individuals in the form of theoretical knowledge and modes of dealing to solve problems (Leonard & Sensiper, 1989). It can include facts and information, as well as understanding gained through experience, education or reason.

Especially in family firms, which represent 80-95% of all businesses (Nordqvist & Melin, 2010) and make a major contribution to employment, revenues, and GDP in most capitalist countries (Sharma, Chrisman, & Chua, 1996), the success of the multistage succession process can be determined by preserving the predecessor’s knowledge (Mazzola, Marchisio, & Astrachan, 2008).

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However, within family firm succession, the knowledge transfer is most often not managed at all or poorly managed at best and in many cases does not work out the way participants wish it would (Cabrera-Suárez, De Saá-Pérez, & García-Almeida, 2001). The typical characteristics of family firms, like their small size, informal organization structures and a restrictive information policy (see e.g., Gallo, 1995) applied by the main entrepreneur, implicate lower pressure and lower propensity to make contextual information, framed experiences, values and expert insights, which are embedded in or hoarded by the main entrepreneur in the majority of cases (Cabrera-Suárez et al., 2001; Hatak & Roessl, 2013), explicit. With the family entrepreneur as the central information source leaving the firm in the course of a generation change, questions arise as to whether the firm is going to irrecoverably loose the knowledge together with the predecessor, or whether it will be transferred to the successor or to another employee and, thus, placed in another personal storage, or whether the predecessor’s knowledge will be stored in the firm (i.e., in a database), independent of individual people.

In order to develop and maintain the family firm’s competitive advantage and to set the basis for innovating and improving efficiency, thus realizing the potential value of the predecessor’s knowledge, an understanding of strategic managerial challenges associated with the knowledge transfer within family firm succession is needed. This chapter therefore aims at identifying context-based knowledge transfer strategies and at developing a typology of transfer constellations. By identifying the associated management requirements, the chapter wants to provide insight for students, researchers, consultants, policy makers and family firm leaders, who are searching for the most appropriate knowledge transfer strategy given the nature, philosophies and traditions of specific small and medium sized family firms.

The chapter is structured as follows: First, the challenges regarding the family firm succession process are systematized against the background of the knowledge-based view. In this context, Nonaka’s theory (1991) of knowledge creation and knowledge-creating space is applied to the family firm succession process. The analysis of the knowledge identification problem and the knowledge transfer problem provide the basis for the empirical study. Second, a qualitative empirical approach was adopted in order to explore the knowledge transfer process within family firm succession. 70 extended semi-structured interviews with 35 predecessors and the matching 35 successors were conducted. Third, the content analysis of the empirical data results in a typology of transfer constellations based on stock, supply and demand of knowledge, which provides the framework for the derivation of context-based knowledge transfer strategies within small and medium sized family firms. The results are concluded and converted into implications taking into account the limitations at the end of the chapter.

**CHALLENGES OF KNOWLEDGE TRANSFER WITHIN FAMILY FIRM SUCCESSION**

As no generally accepted definition (Chittoor & Das, 2007) concerning the term “family firm” exists, a literature-based definition needs to be applied. Here, a family firm is defined as a firm (1) in which several family members – not necessarily the core family – hold capital shares (Westhead & Cowling, 1998) or work in the firm as contributory staff members, (2) whose capital majority is held by one or more family members that make strategic decisions (Barnes & Hershon, 1976), (3) on whose economic development the family depends existentially (Sharma & Manikutty, 2005), and (4) which has an important influence on the mind-set and on the lifestyle of the family members involved (Habbershon & Williams, 1999).

Basically, family firms possess unique characteristics which play a prominent role in economies