Chapter 16
SME Succession Planning and Knowledge Loss Assessment

Susanne Durst
University of Skövde, Sweden

Jessica Yip
The Hong Kong Polytechnic University, Hong Kong

Rongbin W. B. Lee
The Hong Kong Polytechnic University, Hong Kong

ABSTRACT
The aging workforce will soon lead to a number of retirements in Small and Medium-Sized Enterprises (SMEs) that cannot be compensated for by the decreasing pool of succeeding individuals. Consequently, SMEs need to find ways to cope with the demographic challenge and its possible consequences. Otherwise, its capability to act is at risk in situations when critical staff is leaving. This clearly illustrates the need for a proper succession planning. One that takes into consideration the knowledge at stake. The aim of this chapter is to draw attention to the danger of knowledge loss as a consequence of an aging workforce and to discuss three approaches SMEs can use to better understand the knowledge at risk. Set against the importance of SMEs in most of the world, the study’s results provide relevant insights into how to cope with knowledge at risk in order to secure the firms’ survivability.

INTRODUCTION
The aging workforce soon will lead to a large number of retirements that cannot be compensated for by the smaller number of succeeding individuals. Assuming that knowledge is the key strategic resource needed to stay competitive (Spender, 1996), small and medium-sized enterprises (SMEs) need to find ways to cope with this challenge and to prepare the company for the future in order to keep it sustained and to grow further. These preparatory activities should mainly address knowledge retention and knowledge transfer to reduce the danger of knowledge attrition/loss; this highlights the need for an integrated management approach that comprises succession planning and knowledge management. Instead of considering the two aspects in isolation,
which is normally done, they should be viewed as interrelated business areas to provide a more appropriate treatment of knowledge in smaller firms (Durst & Wilhelm, 2012).

In organizations, a huge amount of knowledge is personalized, i.e. in the individual’s head. If this knowledge is critical, i.e. in terms of company performance, the possessor of it takes on a central position within the firm. These persons have competencies, professional experience, or access to business networks, which are viewed as fundamental for running the firm. In SMEs, the business owner and some employees responsible for certain business functions, e.g. sales, represent those individuals. Their knowledge and expertise may be the vital source of the firm’s competitive advantage (Barney, 1991). Given the large number of individuals to retire, a huge amount of this knowledge is at risk. Replacements of these individuals may be further hampered by inflexible, slow personnel systems (Kochanowski, 2011), and inadequate or even missing succession planning (Brunold & Durst, 2012). Therefore making the aging workforce challenge even worse.

In the context of succession, critical knowledge can be defined as the knowledge that is most at risk of being lost (Frigo, 2006). Lost knowledge can occur at individual, group, or organizational levels, have either anticipated or unanticipated effects, have tangible or intangible impacts and create immediate or delayed costs (Delong, 2004). As company succession is viewed as an event for substantive changes in organizations (Virany, Tushman & Romanelli, 1992), the loss of knowledge is a likely consequence of it (Treleaven & Sykes, 2005). Consequently, organizations that are able to retain critical knowledge are said to be better capable of acquiring and assimilating new knowledge (Schmitt et al., 2011).

Against this background, this study attempts to contribute to raising awareness towards a revised understanding of succession planning as a critical approach to better coping with the danger of knowledge loss. Given the relevance of small and medium-sized enterprises for the development of the majority of countries, advancing this awareness is of utmost importance.

In the following, important domains relevant to the study are introduced briefly. This is followed by a section that introduces three approaches SMEs can use to review the danger of knowledge loss in their organizations as a consequence of demographic developments. Following this, in the final section, the conclusion and possible future research directions are presented.

BACKGROUND

Introduction to Succession and Its Relevance

Company succession can be defined as the transfer of the property and/or management of a firm from one individual to another (Ip & Jacobs, 2006) regardless of whether this individual has family connections to the firm, already works for the firm or is an outsider (Olbrich, 2005).

On the foundational level of SME succession, the dichotomy between family and non-family succession awaits distinguishing. Le Breton-Miller, Miller, and Steier (2004) defined the family firm succession process as securing adequate leadership across multiple generations by cultivating and instating family members in top managerial positions, and transferring ownership to family members. Accordingly, non-family succession is concerned with the equivalent, except for the slight alteration of excluding family members and including employees as succeeding managing directors or owners. Both of the aforementioned examples are concerned with the postulate of internal succession, heralding the next level for differentiation in the succession process, namely internal or external succession depending on the company-relation of the successor, and the thereby resulting buy-out and buy-in scenarios. On the one hand, the firm can be leased or transferred to exter-