

Chapter 14

IN&OUT Model: Knowledge Management Applied to the Succession Process in Family Business

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ABSTRACT

Evidence suggests that only 30 per cent of family businesses survive after the first generation. The purpose of this paper is to explain how the unique culture and knowledge forms, which are identified as intangible and relevant advantages on family businesses, can be protected through leadership succession. IN&OUT succession model is built on three previous frameworks: Denison culture model, Nonaka and Takeuchi's knowledge creation and next-generation socialization theory. The IN&OUT model presents a step-by-step process where the successor receives from the founder and from the business (IN); and the successor contributes to the group and to the organization (OUT), creating a dynamic loop of biographical leadership.

INTRODUCTION

One of the most studied issues in family business is the cause of failure due to succession problems (Dyer, 1986; Hugron, 1993; Dyer & Handler, 1994; Morris, Williams & Allen, 1997; Pitts, 2000; Fuchs, Mifflin & Miller, 2000; Miller, Steier, Le Breton-Miller, 2003). Evidence suggests that “a mere 30 per cent of family businesses survive past the first generation” (Davis & Harveston, 1998, p. 32; Miller *et al.*, 2003, p. 514). There are many reasons for failing succession such as unclear succession plans, unprepared successors and family rivalries (Miller *et al.*, 2003). Demographic trends suggest that a large majority of family business leaders will retire in the next decade, so the succession issue is a key topic in family business research (Sharma, Chrisman & Chua, 2003).

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Succession is a key question in the family business. According to the Family Firm Institute (FFI) (2011), family businesses create an estimated 70-90% of the global GDP annually. Referring to the numbers about family businesses' presence in European countries, 73% of all Italian businesses are family-controlled, employing more than a half of all employed Italians; 70-80% of all Portuguese businesses are family and it corresponds to around a half of the country's employment; 85% of Spanish businesses are categorized as family-owned, generating 75 percent of private employment and contributing to 70% of Spain's GDP (FFI).

Managerial succession is a complex period for all kinds of firms (Miller *et al.*, 2003) but much more so in the case of family businesses where the successor's choice is generally determined by blood (Miller *et al.*, 2003). There are many reasons for failing successions, for example, the age and experience gap between old and new leader (Handler, 1994) or family rivalries such as in the case of royal families, which have shown through the ages that their relatives "can hurt or kill other family members to gain wealth and position" (Dyer, 2003, p. 408).

Although the family factor should be an advantage due to its long-term orientation, culture and knowledge values in succession (Kets de Vries, 1993; Meek, Woodworth & Dyer, 1987), scholars have neglected the family as a relevant issue in their research because of the difficulties inherent in getting information and in the belief that there are more institutional rewards for analysing large and non-family firms (Litz, 1997).

Morris *et al.* (1997) argue that family businesses share three common characteristics in their transition process; first, education and business experience of the successor; second, lower levels of rivalry between relatives and higher levels of shared values than non-family businesses; and finally, informal attempts at succession planning. Furthermore, these authors conclude that the family business leader must encourage the shared values among family members over the long term and build a trust framework which holds open communication. In this sense, intangible aspects such as culture acquire a great deal of relevance in family businesses than in non-family business cases (Astrachan, 2003).

This paper proceeds as follows: first, we briefly review the literature that we used in our model, explaining the reasons about why we chose these theories and not others. Culture within family business succession is analyzed using the Denison culture model; the Nonaka and Takeuchi's knowledge creation model and next-generation socialization process. This is done to establish common points in the family business framework and thereby ground our model in the extant literature. The IN&OUT succession model is proposed and discussed. Finally, we outline our theoretical contributions, study limitations and avenues for future research.

LITERATURE REVIEW

Our literature review centres on three important theories. We selected the Denison culture model due to the importance of its cultural results on the family business community. Denison's work is highly respected and cited and has been published in top journals cf. *Family Business Review*, *Organization Science*, the *Academy of Management Review*, etc.

We chose the Nonaka and Takeuchi's knowledge creation model because it is one of the most representative theories about knowledge and innovation in the management literature and it is one of the most cited in the knowledge area. Nonaka and Takeuchi's book, *The Knowledge Creation Company* (Nonaka

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