

Chapter 21

Succession in Family Business Through Authentic Leadership

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ABSTRACT

Family businesses are the kind of organizations that are characterized by overlapping systems of ownership, management, governance, and family values. In family firms, the family is the main asset of the business, and family members are strictly bound to the firm. Due to the dominance of a specific family, the success of the company is closely linked to the proper administration of the duality in the industry, the existence of family and business simultaneously. This fact distinguishes family firms from other companies. Furthermore, managerial and ownership priorities of the owner family are maintained through intergenerational succession. And, the existence of multiple stakeholders and their conflicting demands necessitate a transparent and authentic leadership approach in this delicate process. In this chapter, it is proposed that in family firms, intergenerational succession is more convenient and less painful, in case an authentic leader who gives importance to high levels of awareness, transparency, and morality is in power.

INTRODUCTION

In family firms, family involvement in the business and familial concerns intervening in the business make managerial processes and succession period different for family firms compared to other non-family corporations. Especially, transition periods such as the succession process is important but risky periods for family firms. During these periods conflicts may raise or escalate stemming from emotion based and task-based reasons. That is why succession and problems experienced during this process are among the fundamental concepts of family business literature. And leadership is both a valuable tool facilitating this process and yet an under-researched area in the family firm's research. As a matter of fact, succession of leadership is a significant occasion for any companies; however, in the case of family firms, this is even more important, since extant literature on this field claims that the family wealth and honor can be undermined by an unsuccessful succession (Bocatto et al., 2010).

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Without a doubt, the family is the vital actor guiding the succession planning process. Most family businesses do not survive beyond the first generation of founder-owners. They experience myriad problems deterring them from a successful succession. These factors can be categorized into three groups: 1. Individual-level factors such as; under qualified or unmotivated successors, low levels of organizational attachment, and inability of incumbent or unexpected loss of incumbent. 2. The relational element such as conflicts among the family members from different generations, rivalry among family members, over consensus resulting from groupthink, lack of trust and commitment to potential successors, problems between family and nonfamily members. 3. Financial factors such as lack of necessary financial resources, inability to burden financial liabilities. Without a doubt, a proper kind of leadership is necessary for harmonious administration of all the categories mentioned above. Moreover, the succession process itself is also a fragile system and should be administered delicately by the leader of the organization. Training of successors, defining critical roles of both the successors and the incumbents, giving sufficient feedback to related parts should be supervised by a leader who is trusted and respected by all the associated stakeholders of the succession process including owner-managers, potential successors, other family members, and nonfamily workers. Namely, leadership style prepares the baseline for the most suitable relationship model between the inheritors and the incumbents in determining the best method and best timing, for the succession process.

Regardless of the kind of leadership adopted by the companies, followers obey their leader as a result of their loyalty to the leader. In family firms, the follower's identification with the leader, and their need to be protected by a superior power to pull down the difficult processes make a greater sense for the proper kind of leadership. In family-owned businesses, the leaders, have a very critical role in leading the succession-planning process and perceptions of family and nonfamily members. Leader, mostly the founder-owner, is a family member who has the dual purpose of being both a business leader and family leader. However, this duty becomes more difficult as the time goes on, as the business becomes more complex and more difficult due to loosening ties between family and the company. And as the firm grows the existence of a more significant number of nonfamily members creates the need for a fairer leadership such as authentic leadership becomes indispensability.

In this chapter, it is suggested that the existence of different kinds of conflicts affecting succession process increases the importance of a trust-building, open and transparent leadership. Disputes among family members, problems between generations, rivalry among potential candidates, envious family members, nonfamily professional in managerial positions and discomforts of these people related to succession process compel leaders to fight on multiple fronts. In this atmosphere, trust-based relationships of leaders with other parts result in two-way communication of goals that lead to a successful transition period. High-quality leader-member exchange relationships and satisfactory levels of trust among family members and non-family professionals develop a well-rounded perception that increases the desirability of the succession process. In a good succession process, reliability and validity of the succession process should be accepted by all stakeholders, and proper kind of leadership is essential in ensuring this. That is why, in family firms, multiple stakeholders and their differing organizational identities and demands create a significant requirement for effective and fair leadership. Divergent interests of both family and nonfamily members combined with intergenerational challenges give way to conflicts among controlling family members and sometimes ends up with fatal results regarding the sustainability of the business. Since, the vast majority of family firms try to achieve sustainability, to pass the firm's ownership and management to the next generation, having proper tools to satisfy these expectations is very precious. In this study, authentic leadership, the leadership approach that positive organizational scholars claim

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