

## Chapter 2

# Leadership and Sustainability: From the First to the Second Generation of SMEs Ownership

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### ABSTRACT

*This chapter on leadership and sustainability from the first to the second generations of SME Ownership addresses both the leadership and sustainability from the perspective of different generations in family SMEs. Because, sustainable leadership is seen as a key factor of the competitiveness in a family enterprise. Without effective and efficient human capital, the SMEs cannot gain the goals such as growth, internationalization and increasing performance. Generational differences in SMEs may improve the creativity and innovation, providing that the established appropriate management system and strategy. From this viewpoint, this chapter provides an overview of generations, leadership, sustainability and competitiveness about SMEs*

### INTRODUCTION

Sustainability is partly about the transferring of the family SMEs from one generation to the other because this period is a big challenge for the owners who are worried about the future of their enterprises. Needs, attitudes, and preferences of the workforce are changing due to the globalization, technology and other factors. These changes can use as a strategic tool for success in all level enterprises and foundations. To understand the environment, they need a broad perspective towards internal and external actors of the economy. Despite the widespread practical and academic interest in SME's overall economic performance, generational perspective is very rare. The aim of this chapter to increase the understanding of the importance of generations and leadership for SMEs which want to have sustainable competitive advantages with limited resources.

For that purpose, the chapter is organized into three parts. In the first section of the chapter, a review of the literature on the generations of SMEs which include generational differences in the workplace, learning process and knowledge transfer between generations, new generations, and SME employee

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management are given. And the second part of the chapter is about SME and sustainability and includes leadership for sustainability, the relationship between leadership, strategy, and performance in SMEs. The remainder and also the last part of the chapter is about the competitiveness in new generations and includes productive capacity, innovation, and network approach.

### **1. THE GENERATIONS OF SME**

Small and medium-sized enterprises (SMEs) especially family-owned businesses are the force of the economies across the world. Because they provide employing a major amount of workforce across all business verticals. The share of the family-owned businesses in them are about 60 to 70% contributing employing. According to Shiva (2016) in India, the gross output of these families owned business accounts for 90% of the industrial output, while in the USA the accounts of family run businesses are 90%. It means that 40 to 50% of the Gross National Product is contributed by family owned businesses. Similarly, the rate of France is 59% and so it can be said that 70% to 85% of all businesses are family run businesses in the world industries (Shiva, 2016). But these enterprises face some challenges and have some difficulties in the process of transition.

From the first to the second generations, the need of professionalization emerges more specifically because the family generally grows faster than the enterprise. The profit pressure on the entrepreneur leads the growing, but the decision has a critical importance because of the uncertainty. The first generation wants to sustainable success, but there is no guarantee about the future and about the talents of the new generations. All family members have roles which support the owner and others for success. So, success is a personal matter, while the future of the enterprise is bound to the commitment of the members. There are shared values and a business culture which is felt by all employees when the organizations help to maintain the family ties from one generation to the next. The successful transfer of the enterprise from the first generation to the second depends on the family, the shareholders and the concept of the ownership (Shiva, 2016).

The passing of the enterprise from one generation to the other is a big challenge for the owners because they are worried about the sustainability of the firm. The survival of the enterprise is obvious, so they need to manage this critical process carefully. One of the main goals of the transfer is the growth of the family firm as well as increasing business performance. In this process, some disasters cause the disintegration and division. As a result of this process, family members concede the irreversibility of economic potential and downsizing of the firm. To avoid this ending, family member especially the top managers or entrepreneur should have a professional manner and pay attention the family capital. Institutionalization and financial awareness are the key factors of transfer the enterprise from one generation to the other or sustainability.

From the first to the second generation of SMEs ownership, there are five main challenges to deal with. Family-run enterprises have some advantages because of the family values and synergy, but being together can also be a destroyer if they cannot keep a sense of unity. The challenges which the family businesses have to overcome summarize as follows (De-Vries, 1993; Morck and Yeung, 2003; Corbetta and Salvato, 2004):

Pressure the sustainability or success: Setting up a business is a kind of long-term career way for the entrepreneur. The first family members which taking risks and starting a business sustain a leadership role in the initiative. Organizational principles and other norms which are composed of the initial activi-

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