

## Chapter 7

# Intergenerational Transition in a Small Family Business: Evidence from a Process Study

**Carlo Mari**  
*University of Molise, Italy*

**Olimpia Meglio\***  
*University of Sannio, Italy*

### ABSTRACT

*Family businesses constitute the key infrastructure of wealth creation across the globe. One of the most important human-resource challenges they face is intergenerational transition, an issue that has received considerable attention from scholars in various countries. Despite this great interest, academics are still attempting to understand the phenomenon and provide effective managerial guidance on how family businesses can make it to the second generation. This chapter seeks to contribute to family business research by offering a more nuanced understanding of intergenerational transition that builds on a conceptualization of the phenomenon as a process rather than the prevailing view of it as an instantaneous event. In order to capture the processual nature of intergenerational transition, evidence is presented from a field study carried out in a small Italian family business that was the arena of three different intergenerational transitions taking place at different time periods. The evidence gathered suggests that the process is shaped by interaction of the different parties involved, who renegotiate their roles as it unfolds, with various factors playing a part.*

### INTRODUCTION

Family firms or businesses constitute the key infrastructure of wealth creation across the globe. In Italy, 56.9% of companies with a turnover of more than €50M are owned by families (2012 Observatory of Italian Family Firms Report), and this percentage is even higher in the case of small

and micro firms. These figures explain the birth of an academic field and a number of scholarly journals devoted to family business research.

Scholarly research has concentrated to date on unraveling peculiarities and commonalities with non-family businesses. Viewing the family business as a homogenous phenomenon with respect to the non-family concern leads, however, to a

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simplistic portrait that does not do justice to its heterogeneity. A family business is actually composed of two interdependent systems, namely the family and the business (Kepner, 1991), and the relationship between them can take various forms, thus resulting in great heterogeneity of family businesses across the globe. This is mirrored by the multitude of definitions of the family business and paradigms to be found in the literature. As an analysis of definitions and paradigms lies beyond the scope of this chapter, readers are referred to Westhead & Cowling (1998) for a comparative overview and to Chrisman, Chua & Steier (2003) for an introduction to family business theories.

Even though each of these definitions and paradigms presents an angled view of the family business, taken together they suggest that the family social and human capital is the most important asset, as it cannot be hired or imported.

The awareness that family businesses are heterogeneous and that human resources are essential to ensuring competitive advantage and long-term survival has contributed to recognition of the importance of human resource issues in family business research (King, Solomon & Fernald, 2001, Lansberg, 1983). While the literature has generally neglected these aspects, Astrachan & Kolenko (1994) constitute an exception. The authors highlight the importance of activities such as recruitment, selection, development, and compensation policies. These policies may be affected by family values and personality issues as well as family culture (Dyer, 1986). Among human resource issues, Astrachan & Kolenko (1994) include the adoption of a succession plan, which is rarely formalized by family firms in the way that all other decisions regarding human resources are (Nguyen & Bryant, 2004). The lack of a formal succession plan could account for the widely recognized fact that the majority of family businesses fail to make it to the second generation (e.g. Barach, & Gantisky, 1995; Le Breton-Miller, 2004). Despite the attention that this issue has received from scholars in various countries (Brockhaus, 2004; Litz, Pearson &

Litchfield, 2012), the findings are inconclusive and scholars are still attempting to understand how this transition can be successfully managed.

This chapter seeks to contribute to family business research by offering a more nuanced understanding of intergenerational transition that builds on a conceptualization of the phenomenon as a process rather than an instantaneous event, which is the prevailing view. In order to capture the processual nature of intergenerational transition, evidence is presented from a field study carried out in an Italian small family company that was the arena of three different intergenerational transitions taking place at different time periods. Our findings offer a multi-authored account of this process, in which successors and founders have their say, and provides an understanding of the relations between them. They also capture the lengthy, ambiguous and ongoing nature of the transition, with roles renegotiated on a day-to-day basis and various factors, both internal and external, exerting their influence.

The chapter is organized into following sections: a review of the existing literature on intergenerational transition, discussing flaws in existing conceptualizations of this phenomenon and addressing the limitations of research methods employed in empirical studies; a description of the field study; presentation and analysis of the findings; and finally a discussion of the study's limitations and future paths of research as well as managerial implications.

## **INTERGENERATIONAL TRANSITION IN FAMILY BUSINESS RESEARCH**

This section compares different ways to conceptualize intergenerational transition in family businesses and goes on to review the existing literature on the subject. It ends with a proposal to employ a process approach as a fruitful research orientation to further current understanding of the phenomenon.

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