

Tacit Knowledge Transfer in Family Firms During Generational Succession

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Abstract: It is widely recognized that generational succession is one of the main problems to be faced by family firms with important implications for their long-term survival. The generational succession represents a critical phase in the life cycle of family firms, where in most cases the entrepreneur-founder is the pivot around which the company's success was built. In fact, empirical studies show that this phase is the most delicate, with a large percentage of companies facing serious difficulties in this process of change, so that they compromise the same "state of health" of the firm. Several aspects contribute to this process, for example more intangible aspects linked to the wealth of knowledge and skills of the entrepreneur, on which perhaps during the time the family firm has built its own competitive advantage. One of the major obstacles to be faced in the generational succession is inherent with the difficulty of preserving, developing and transferring knowledge from the entrepreneur to the successor. According to the Knowledge Management model of Nonaka and Takeuchi, knowledge is distinguished between explicit and tacit. While explicit knowledge is more easily transferable, tacit knowledge referring to the experience encounters greater difficulties in its transfer. Therefore, this contribution is proposed by analyzing as case studies three companies present on the Italian territory that are experiencing the generational transition, to understand and compare the tools (observation, participation, etc.) that the entrepreneur uses to transfer own tacit knowledge to the successor as fundamental elements for survival and development of businesses.

Keywords: Tacit Knowledge, family firms, generational succession

1. Introduction

Family businesses account for a huge percentage of employment in most capitalist countries (Morck et al., 2000; Shepherd and Zacharakis, 2000). In these types of organizations, the founders seek to ensure continuity of family control through intergenerational succession. Unfortunately, recent literature suggests that only 30% of family businesses survive beyond the first generation and that many intergenerational successions fail soon thereafter.

the second generation (Davis and Harveston, 1998, Handler 1992;). Research suggests that there are many reasons why such successions fail. They include unclear succession plans, incompetent successors, family rivalries and even an erroneous transfer of knowledge (Dyer, 1986; Hugron, 1993; Lansberg, 1999; Pitt 2000).

Within organizations, knowledge is a crucial competitive factor for their success. It is more than just information and data and can be described as a "fluid mix of experiences, values, contextual information and expert insights" (Davenport and Prusak, 1998).

Knowledge manifests itself in the form of intangible (tacit) and tangible (explicit) assets; the former is embodied in human beings while tangible goods are incorporated over time into organizational procedures, routines, processes and documents. Therefore, paying attention to the transfer of knowledge, especially in family businesses, is a critical issue for the survival and growth of the company over time. In fact, in these organizations' knowledge - often - is rooted in the figure of the entrepreneur and therefore during the succession process the very survival of the company could appear threatened. While in the family business system the value of knowledge is clear, it is often difficult to recognize all the different components involved (Takeuchi, 2001), therefore, it is essential that the entrepreneur focuses not only on developing and managing the different aspects of knowledge, but above all on its transfer (Spender, 1996).

The contribution therefore aims to identify and analyze - through an empirical approach - if tacit knowledge is considered a valid support in the transfer of knowledge from the entrepreneur to the successor; how this tacit transfer of knowledge takes place, in particular through what specific tools in the difficult passage of generational change.

In fact, it is a crucial moment in the life of the company because it involves the passage from one generation to the next to a real wealth of know-how and management skills, acquired over years of experience.

2. Theoretical Framework

2.1 The role of Knowledge in the process of generational succession

One of the great challenges that family firms experience during the generational transition is the successor's ability to acquire the knowledge of the predecessor. This knowledge transfer, both tacit and explicit, is essential for maintaining and improving performance family firms.

In the academic literature the management of knowledge in the succession family business emphasizes the transfer of knowledge between the founder and the next generation is problematic, but essential for a successful transition (Cabrera-Suárez et al., 2021; Handler, 1990). The Knowledge can be defined as the set of skills and competences that family members accumulate during their educational, work and life experiences and which they collectively possess (Martínez et al., 2013)

Knowledge management is used to safeguard the business over time, as it is essential importance during a succession process (Cabrera-Suárez et al., 2021). In particular, knowledge management can prove to be a key success factor in passing the business to the next generation.

Therefore, the issue of knowledge has long been addressed by scholars of organizational disciplines, developing and enriching itself in parallel with what happened in companies with reference to business studies, enriching the flow of implications from IT to Management (De Nito and Reina, 2003). A key aspect to address when talking about knowledge is related to the nature of knowledge and its dimension. As for the dimension, knowledge must be analyzed under two aspects, both ontological and epistemological. The first refers to those who create knowledge by passing from the individual to the organization, it can be said that knowledge is a product of the individuals in an organization because without them it could not create knowledge (Monzani, 2005). From an epistemological point of view, however, the concept of knowledge has always been a place for comparison and interpretation within the scientific community: from the classic distinction between tacit and explicit knowledge (Polanyi, 1966; Nonaka, 1994; Brown and Duguid, 2001).

It is widely accepted that the figure of the founder represents the holder of specific knowledge of the company who needs to pass on the knowledge to another generations (De Massis, Sieger, et al., 2016;).

A highly motivated predecessor is able to facilitate the process of knowledge transfer (Bracci and Vagnoni, 2011; Cabrera-Suárez et al., 2021). However, many predecessors may be influenced by the thought of losing their leadership position and becoming superfluous over time (Lansberg, 1988). This is often referred to as a barrier to the knowledge transfer process and succession process. Knowledge transfer is greatly enhanced when the owner is willing to disclose rather than retain knowledge (Bracci and Vagnoni, 2011).

On the other hand, the characteristics of a successor also significantly influence the process of knowledge transfer in family businesses (Bracci and Vagnoni, 2011; Szulanski, 2004). Successors need to be strongly motivated to gain experience and knowledge from their predecessors (Cabrera-Suárez et al., 2001; Chirico and Saves, 2008). Lack of motivation can lead to an overestimation of the knowledge transfer process (Cabrera-Suárez et al., 2001).

The successors' ability to acquire the knowledge of their predecessors is influenced by their education (Chirico, 2007; Csizmadia et al., 2016). Business knowledge continues to develop through formal education (Barbera et al., 2015;), in fact the successor's performance after joining a family business may be related to the successor's formal education (Pérez-González, 2006).

2.2 Tacit Knowledge in the generational succession

The distinction between tacit and explicit knowledge is the key to understanding organizational knowledge (Nonaka and Takeuchi, 1995; Inkpen and Dinur, 1998). Polanyi (1962) defined tacit knowledge as non-verbalizable, intuitive and non-articulated knowledge. Tacit knowledge is learned through collaborative experience and is difficult to articulate, formalize and communicate (Nonaka and Takeuchi, 1995; Polani, 1966). Tacit knowledge could be held by individuals or held collectively, in shared collaborative experiences and interpretations of events. Individual tacit knowledge can be found in an employee's patterns, skills, habits and abstract knowledge (Lyles and Schwenk, 1992; Starbuck, 1992). Tacit collective knowledge typically resides in top management schemes, organizational consensus on past collaborative experiences, business routines, corporate culture and professional culture (Nelson and the Winter, 1982; Nonaka and Takeuchi, 1995).

Spender (1996) suggested that tacit knowledge might best be understood as knowledge that has not yet been turned into practice. It is knowledge that has been made into habit, and it is highly context specific and has a personal quality (Nonaka, 1994).

On the contrary, explicit knowledge is encoded and transferable in formal and systematic methods, such as in rules and procedures (Nonaka and Takeuchi, 1995). Individual explicit knowledge consists of knowledge and skills that can be easily taught or transcribed, while collective explicit knowledge resides in standard operating procedures, documentation, information systems and rules (Brown and Duguid, 1991; Starbuck, 1992).

As Inkpen and Dinur (1998) have pointed out, the distinction between explicit and tacit knowledge must not be seen as a dichotomy but as a spectrum with the two types of knowledge as the poles at either end.

Nonaka and Takeuchi (1995) identified two elements of tacit knowledge: cognitive and technical. Figure 1 shows the potential distribution of examples of tacit knowledge within the two dimensions of Nonaka and Takeuchi.

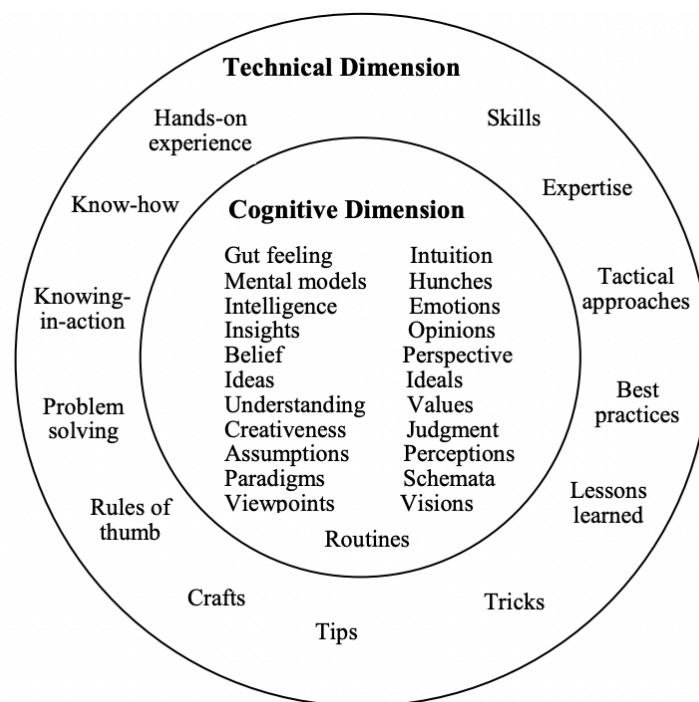


Figure 1: potential distribution of tacit knowledge

Source: Nonaka and Takeuchi 1995

The cognitive impression includes beliefs, ideas, paradigms, values, intuition and mental models. The technical dimension is more related to "know-how", trades and "informal skills" which are commonly accepted definitions of tacit knowledge (Nonaka, 1994).

3. Case study

3.1 Methodology

To deepen investigate our topics, we used here a qualitative method for the analysis. In particular, we thought that the case study (Yin and Pinnelli, 2005) was the most appropriate methodology to answer our research questions. This method, in fact, seemed us suitable to correctly answer an "if" and "how" question in a specific context (Edmondson and McManus, 2007) (in particular: if tacit knowledge is considered a valid support in knowledge transfer from entrepreneur to the successor/s; how this tacit knowledge transfer is made, more specifically through which specific tools). Therefore, we could understand peculiarity of each organizational setting (Stake, 2005).

The scientific research on support of tacit knowledge transfer during a generational succession in Italian family firms is still in a pioneering phase (Bryman and Bell, 2011).

We chose a multiple case study, because it seems offer more advantages than the case study: the single data collected seem more reliable and greater rigor in the study of the observed phenomenon.

The cases analyzed were three: one small manufacturing enterprise in the northwest Italy and two commercial enterprises in the northeast Italy, one very small and one medium size. These cases were considered particularly significant because they were representative of different generational succession situations in family firms, both for the different types of businesses (manufactural and commercial; tiny, small, and medium enterprises), and the variety of geographic collocation (in Italy it is particularly significative). The three cases were also chosen because, despite the small size, shows also several combinations of generational successions: one from father to three sons, one from father to daughter, one from mother to son. Moreover, one hadn't any plan for the generational handover, and two had; one of this was helped by an external support and the other wasn't.

The data were collected through eight semi-structured interviews, recorded and transcribed, conducted with three older entrepreneurs (two fathers and one mother) and five younger (four male and one female). The interviews on average lasted about 40 minutes and the dataset retained a certain degree of flexibility, along with our research questions, which were often updated according to ongoing feedback and unexpected events (Leonard-Barton, 1998). The survey is made up of 9 questions, of which six are open, and three are multiple choices.

The researchers then processed the results. Through a group of work and discussion, we selected the most interesting and relevant contents from the incoming materials and, when necessary, transcribed these contents with a word processor to build a homogeneous archive for the analysis.

3.2 Cases description

CL is a small mechanical enterprise situated in northwest Italy. It was founded in the seventies and divided into two different businesses in the eighties. Considering the first foundation, this is the second generational transition; if we contemplate the current activity, it is the first. This delicate phase was planned two years ago, with the help of an external consultant, and it is still ongoing.

A.A. is a tiny commercial enterprise, in the furniture field, situated in northeast Italy; it was founded in 1966; at the beginning, it was carpentry that was enlarged in the seventies and transformed into a commercial company. Today it is a shop of about 5000 square meters, with only six employees, and it is experiencing the third generational transition. The change process has been planned about ten years ago and the mentoring is still in progress.

AB is a medium enterprise for the luxury furniture and design sector, founded in the eighties in northeast Italy. In ten years, it became a group of six shops and one tailor-made production, with fifty employees, and experienced the first generational step, without planning, concluded few years ago.

4. Analysis and results

As regards the first question of our research, we asked all the interviewees if, in their opinion, the knowledge transfer in the generational transition was important. In particular, according to Davenport e Prusak (1998) and

Nonaka and Takeuchi (1995) we asked them to specify which component of knowledge (tacit or explicit) they considered a primary support for the generational change.

All the interviewees, both senior and junior, answered affirmatively and indicated tacit knowledge as the main support. The generational change was considered by all, albeit with slightly different words, a delicate moment for the life of the company, which, for this reason, requires a lot of attention and care. They added that a good protection is precisely the transfer of experiences, intuitions, relationships, and so on, that cannot be explicitly learned neither passed on.

To investigate the second proposal, five tools of tacit knowledge were suggested, and more precisely: intuition (Nonaka & Takeuchi 1995; Virtainlahti 2006), personal business sense, observation (Senker, 1995; Mohajan, 2016)), mentoring, and participation (Mohajan, 2016). We asked each respondent if they were considered important and why. In the end, a free field called "other" was also left to allow everyone freely insert further tools of tacit knowledge deemed necessary.

1. Intuition: four people answered "no" (all sons, one of whom, however, said that "if present, it helps speed up the transfer of knowledge") and four "yes" (all the three senior entrepreneurs and the daughter; this latter considered appropriate to specify that "it is very useful because it speeds up the knowledge transfer")
2. Personal business sense: six interviewed people answered "yes", and two said "no". A senior entrepreneur and one junior, both explained that "you can learn and develop it through technique and method even in a second time".
3. Observation: seven people answered "yes"; only one said "no" (a son, who specified "it is not necessary but, when it is present, can be helpful"). A curious detail is that the two females, senior and junior, both thought it proper to specify, respectively, that "with the term "observation", I don't just mean "gaze", but I think to the use of all senses" and "I consider it a necessary tool, but I mean an empathic observation, not only with the eyes but with all senses, and with the hearth".
4. Mentoring: four people answered that it is really supportive, but one of them specified "I mean external mentor, because my father is not able to do it well"; the two women and one entrepreneur specified that "it is an important tool, that helps and simplifies the tacit knowledge transfer and it must be a reciprocal mentoring; we must support each other by teaching and learning in a mutual educational process". Four people, three junior and one senior, answered that mentoring is not a necessary tool.
5. Participation: almost all interviewed people replied that it is a fundamental tool ("without participation, it is useless to think of a knowledge transfer or even a generational change"). The only one who answered "it is not important", was one of the senior entrepreneurs. However, the other, even if he answered "yes", pointed out that "mine answer is " yes "only if the successors are ready; otherwise, they should not participate because they only do damage".

Only five people have inserted other tools in the free space, namely "trust, we-thinking, humility, empathy, listening, cooperation, competencies". Two juniors underlined the importance of regular meetings and feedback.

TOOL FOR TACIT KNOWLEDGE TRANSFER	Senior entrepreneur (M)	Senior entrepreneur (F)	Senior entrepreneur (M)	Junior entrepreneur (M)	Junior entrepreneur (M)	Junior entrepreneur (M)	Junior entrepreneur (F)	Junior entrepreneur (M)
Intuition	YES	YES	YES	NO	NO	NO	YES	NO*
Personal sense of business	YES	YES	NO	YES	YES	YES	NO	YES
Observation	YES	YES	NO	YES	YES	YES	YES	YES
Mentoring	NO	YES	YES	YES	NO	NO	YES	NO
Participation	YES*	YES	YES	YES	YES	YES	YES	NO
Other	Competencies	Trust, Humility, we-thinking	empathy	I don't know	I don't know	I don't know	Trust, cooperation, regular feedback and meetings	Listening, regular feedback and meeting

5. Limits

The present on field analysis contributes to verify how tacit knowledge is considered a valid support in knowledge transfer process during generational succession. The interviews done show that differently are valued the tools able to transfer tacit knowledge among generations. The contribution represents a first step regarding the aim to deep how knowledge and what kind of is relevant in Family Firms in the generational

transition. So the small number of firms involved represent a first limit to overcome; perhaps the different typologies of firms contacted have permitted to underline the importance of topic analyzed, but on the other hands can have created distortion in real comprehension of tacit knowledge transfer tools.

Next step will regard to rise the number of firms involved in the study, maybe through a selection of a specific industrial sector in order to reduce the interpretative ambiguity and then to select the Family Firms in different Italian regions.

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