CHAPTER 2: LITERATURE REVIEW: PART II - FAMILY BUSINESS

35% of the Fortune 500 companies are family owned, they account for 50% of the US GDP, generate 60% of employment in the country and 78% of new job creation, (University of Southern Maine 1989). The family enterprise is capturing increased interest from scholars around the world. Yet, research about family business is in its infancy and the diversity of theories and perspectives represented in the developing literature portray a cluttered and conflicted landscape. It is considered as axiomatic in economic theory that competitive forces extinguish inefficient forms of business enterprise, leaving only those that are structurally most fit with respect to prevailing market conditions. Similarly, a tenet of organizational theory is that one can explain the prevalence and distribution of an organizational form with respect to the fit of that form to its environment. By these standards, the family enterprise must be a remarkably efficient and robust organizational form: it is the world’s most common form of economic organization and, as noted by La Porta et al. (1999), family-controlled corporations dominate the global economic landscape. Despite their ubiquity and economic significance, there is a striking absence of research which explains the prevalence, prominence, or even existence of this economic institution.

As anthropologists remind us, the family is the original economic unit from which all other forms of economic organizations sprang. In families, each member is expected to contribute to its overall welfare, and families, in turn, provide food, shelter, affection, identification, and protection. Relationships are typically, though not always, characterized by trust and affection, open-ended reciprocity, and a sense of fairness and justice. Families are governed by the patriarch or matriarch, entrusted to allocate resources within the household and to lead, delegate responsibility, and manage conflict. While Carney (2005) reminds us that their conduct can be idiosyncratic and particularistic – they have the ability to make and enforce decisions based on unique or context-specific criteria – their leader’s conduct is circumscribed and tempered by the norms, customs, and traditions that characterize a society and its culture. Thus, many fundamental notions of exchange relationships, as well as diverse forms of enterprise, are rooted in the institution of the family and its pluralistic incarnations across and within diverse socio-cultural contexts (Fukuyama, 1995; Granovetter, 1994). While family enterprises dominated economic history through the first industrial revolution (Colli, 2002; Morck & Steier, 2005), their importance as an economic institution was seemingly displaced by the rise of the modern corporation at the turn of the twentieth century.

Alfred Chandler Strategy and Structure, (Chandler, 1962) documented how improvements in technology and transportation increased the efficiency, scale and scope of modern enterprise to the point where radical changes in strategy and structure made professional management critical. Chandler extended his thesis, that the modern economy had rendered family-led enterprises obsolete in Scale and Scope (Chandler, 1990). He argued that dynasty based leadership, regardless of the cost advantage, places considerable limitation on accumulation of human and financial capital to develop economies of scale. An astonishing statement reflected by lack of research articles in the family business “that is, one that is only capable of reproducing itself (Meyer & Zucker, 1989).
The real time impact of this social and business structure was not felt until the first decade of the new millennium when the merits of the family enterprise began to be re-evaluated in top-tier management journals (Gomez-Mejia et al., 2001; Schulze et al., 2001). The coals were further sparked and nurtured by the annual ‘Theories of the Family Firm Conference’, which was established in 2001 by Jim Chrisman (Mississippi State), Jess Chua (University of Calgary), and Lloyd Steier (University of Alberta), and the ‘Family Enterprise Research Conference’ (FERC), which was founded in 2005 by Frank Hoy (University of Texas at El Paso) and Pramodita Sharma (Concordia University). Family, thus serves to provide identity and then, over time, reputation that serves as the springboard for a form of firm and specific organizational capital known as family social capital (Arregle et al., 2007). Such capital is posited to facilitate access to valuable information and resources (Arregle et al., 2007; Zahra, 2010). Such assets are especially valuable in times of scarcity (Carney and Gedajlovic, 2002a, 2002b). This critical observation has facilitated this study on knowledge transfer across generations.

2.2 DEFINITIONS OF THE FAMILY BUSINESS

One of the overarching difficulties in literature is the lack of a common definition of the family firm. Researchers have variously defined the family firm as one whose majority shares are controlled by a single family (Westhead et al., 2001), an ownership concentration that exceeds a stated threshold and is controlled by family (Gomez-Mejia et al., 2001), the presence of one or more officers who are related to the founding family (Anderson et al., 2004), or some combination thereof (Gomez-Mejia et al., 2001; Villalonga and Amit, 2006). These issues with definitions are troublesome because they confound the accumulation of knowledge and fail to properly demarcate the boundary of the phenomenon. Miller et al. (2000), for example, using a sample similar to Anderson and Reeb (2003), found that earlier findings were contingent on the inclusion of founder controlled firms in the family-controlled firm sample. Accumulation of knowledge is also difficult because, at this time, no theoretical model exists that clarifies how one should expect the various influences of the family, concentrated ownership, and dynasty to interact and affect conduct in publicly-traded family firms.

A Family Business is one that is owned, run and often conceived by a family member, or members. It can be a small entity business run by one or two members of the family or may be large enough to cover several States and be run by members of more than one family, (Dr Paul Carr and Dr James, COE).

A Family Business is any business in which the majority of the ownership or control lies within a family, and which two or more family members are directly involved. It is also a complex dual system consisting of the family and the business. The family members involved in the business are part of a task system -- and they also handle the emotional state of affairs -- the family, (Dr Paniikos Potzouris)

MULTI CRITERIA CLOSED DEFINITION

If more than 60% of the voting rights are owned by a single family group related by blood or marriage, the company is perceived to be a family business. One or more of the
management teams are drawn from the largest family group that owns the company, and, the company is owned by the second or more generations.

CLOSED DEFINITION OF FAMILY BUSINESS (PUBLIC LIMITED COMPANIES)

A PLC is family controlled when at least 25% of the shares are in the hands of the family shareholders and is an established family business that has experienced generational change. 75% of the shares are normally fragmented holdings.

OPEN DEFINITION

Businesses may be considered as Family Business, to the extent that the ownership and management are concentrated within a family unit, and to the extent its members strive to achieve/maintain and/or increase intra organizational family based relationships.

A Family Business is company owned, controlled and operated by members of one family whose non family members may also be employed. It is a firm in which the family has strong influence in the day-to-day running of the business.

Owner managed enterprises with family members exercising considerable financial and/or management control.

One that is controlled by a family and has one of the following three characteristics:

1. Three or more family members, all active in the business
2. Two or more generations of family control
3. Current family owners intend to pass on control to another generation of the family (Rouvinez & Ward, 2005:1-2)

It is a business owned, managed, and governed by one or more generations of family and/or family members and in which values, vision, and mission laid down by their founders are strictly maintained (McCrea, 1997; Sarma & Bjornberg, 2006)

Chua et al. (1999), carried out a detailed literature review on the definition of family business which was classified into three categories.

1. Family owned and family managed; the basic mantra of this businesses are to keep it small, within the family, in small cities and not make it public (Kristie, 2008). Some of the well known business houses in this category are Avedis Zildjian Co (1623), Laird & Co (1780), George Ruhl and sons (1789), Loane Bros (1815), Bevin Brothers Manufacturing Company (1832), Antoine’s Restaurant (1840), Verdin & Co (1842), Baumann Safe Co (1843), A E Schmidt (1850), and Hicks Nurseries (1853). The structure is simple, autocratic and owner driven.

2. Family owned but not family managed. Some of well known business houses are under this category are: Wal-Mart, Cargill, Ford, Nike, Ikea, Viacom, Reliance Industries, and Wipro. The CEO has to manage the business and the family members.

3. Family managed but not family owned. Family ownership can be of one individual; two persons not related by marriage or blood; two persons related by
Some typical forms of family business ownership are:

(i) Sibling Partnership: It is characterized by lack of parental guidance. The parent entrepreneur returns tired, stressed, exhausted after a hard work day. So, home does not become a learning centre for the children. Also as the siblings grow up together, intense emotion is involved in the relationship and normal disagreements in business decisions often leads to disintegration of the company. (Ward, 1997 and Ward & Aronoff, 1992)

(ii) Cousin Confederation: Ownership control is spread amongst many owners, not necessarily the family members, who could be distant cousins or close friends. No one has absolute control and they adopt a democratic decision-making process where majority rules, (Panjwani et al., 2008).

The theoretical definition of family business proposed by Chua et al. (1999) is

“A business governed and or managed with the intention to shape and pursue the vision of the business, held by a dominant coalition, controlled by the member of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.”

Optimizing the interests of both the business and the family has been cited in literature as a major concern for family business leadership (Hollander & Elman, 1988; Whiteside & Brown, 1991). Uniqueness of the family business lies in the planning, formulation implementation of the firm’s goals, strategies and structure that are determined by its governance, management, ownership and succession.

According to Family Business Survey, 2012 carried out by Price Water Coopers (PwC, 2012) 74% of the family businesses have shown growth in sales as compared to a 65% global average. Indian industry is largely dominated by family-owned enterprises. India has a very high concentration of family controlled business groups. The country has a rich history and tradition of strong family ties, and family businesses have long been a part of the Indian culture. About 50% of the Nifty 50 firms (top 50 in the National Stock Exchange) are family-controlled and managed (Marisetty, Ramachandran & Jha, 2008). They account for a significant proportion in all spheres of the socio-economic and political life of the country. The uniqueness on these aspects results in a unique set of issue and problems. There have been only few studies of the Indian business families and family business: Parikh, 2001; Ramachandran, 2006; Sharma & Rao, 2000; Veliyath, 2004. These studies examined the location and status of the family businesses in the industrial context of India; reflecting on the future of Indian family businesses and new paradigms of family businesses; compared the successor attributes that Indian and Canadian family business owners consider most important; looked at the management of succession and transition in Indian family businesses, and explored the wealth effects of management succession announcement in the Indian family business groups.
DEFINITIONS FOR PURPOSE OF THIS STUDY

It is a business owned, managed, and governed by one or more generations of family and/or family members, and in which values, vision and mission laid down by their founders are strictly maintained, (McCrea, 1997; Sarma & Bjornberg, 2006).

2.3 TWO TYPES OF BASIC BUSINESSES

TYPE 1

It is important to note here that only the family members are principals and agents. Any form of outsiders are suspected and sullied. They are not part of the family, and hence they cannot be in the business or in service thereof. These were very closely held since the business and the family linkages were very strong and binding. Since the early entrepreneurial stage succeeded the business continued with internal presence. They were tightly controlled and specifically defined. The limits of the business were known. Critical thinking and innovation was within the business and closely held. They existed in the past and they continue to exist even as of date, as late as the fifth generation of the business. Some examples of these businesses can be enumerated and notes can be compared: Avedis Zildjian Co (1623), Laird & Co (1780), George Ruhl and Sons (1789), Loane Bros (1815), Bevin Brothers Manufacturing Company(1832), Antoine's Restaurant (1840), Verdin & Co (1842), Baumann Safe Co (1843), A E Schmidt (1850), Hicks Nurseries (1853). These are 10 of the oldest surviving family business companies in the US. The parenthesis reflects the date in which they were created. Today the fifth generation family member is running them. They are not well known and they are ok in size, but have survived. As of now there is no reason to believe that they shall not survive in the future as well.

TYPE 2

Family has a majority stake and therefore the controlling power over the company. They are the principals but they have an agency relationship and a professional’s engagement. They are the current generation of family business and are reorienting themselves. The basic level of entrepreneurship control does exist but given the spread of the business both in value and geographical terms it has become a necessity for these businesses to go beyond the family. There is also the possibility that family human capital resources have depleted or have gone to alternate businesses. There are also possibilities that lack of knowledge transfer between generations and increased level of complexities has allowed this concept to emerge. The important aspect is that this concept is here to stay and there are several research contributions being made to reflect Agency-Business relationship and its ability to provide growth and also sustain the family businesses. There are several examples both in India and abroad of such type of businesses and some prominent and noteworthy businesses are Wal-Mart, Cargill, Ford, Nike, Ikea, Viacom, Reliance Industries and Wipro. The CEO has to manage the business and the family members, and ensure integration.
TRANSFORMATION STAGES FOR A FAMILY BUSINESS

STAGE 1: OWNER MANAGED

The ownership of the business is with one family member, who leads the business. He is the creator and the first level entrepreneur who has perhaps conceived the idea and allowed it to germinate. He has absolute power and definitely more than 51% voting rights. What he says is final, and that is how the business is run and that is how the family views it. He is the first generation and the family has started seeing growth of wealth in his form and will do nothing to disrupt it or the business. He is authoritarian and maintains the prerogative to take unilateral decisions. He will never allow the business to fail and is aware that his tomorrow’s and his families tomorrow’s are determined by his success today. There is lot at stake and he cannot afford to rely on the belief that he has to wait for others to ensure that he succeeds. He moves very fast and employs his intuition and wisdom more than data. He has no objection to receiving family support or professional support but the business shall be run by him. It is very rare to find this leader to accept decisions taken by his very own family members unless he is ready to look at them from a succession planning point of view. This is the simplest structure of the family business. This is also the basic structure from where entrepreneurship has evolved and from where the roots of possible family business environment can be expected.

STAGE 2: SIBLING PARTNERSHIP

This is the stage of the business where the owner manager has realized that he can do well, much better, or needs help, and he feels the urge to allow one of his selected siblings to develop a business apprenticeship model. He may also select more than one. The owner wants to make a succession decision, and he wants to hand hold and ensure the business is in safe hands. This takes time and happens after several selection attempts by the owner. At this stage he is ready to take a consensus based decision since the successor will be a controlling owner and hence the owner wants to do a due diligence process. There is a proper selection process and the family is well aware of it. There could be issues about the decision, because the family can be disturbed as to why one and not the other and also why only one is chosen. Why the son and not the daughter. He would also like to wait and watch before anointing him as a successor. He will see that the business is likely to last. He needs to have the ability to “LET GO”. This is the critical phase of business and needs to be well established. If done seamlessly and over a period of time, there will be realization that the business is as usual and will continue to be so. The successor would have earned an evolving partnership would be meaningful. There is another side to the coin. The relationship can suddenly become volatile especially if the family expectation was not well managed. There will be dissatisfaction amongst the wealth receivers who desire more and other family members who have not received equally well. This leads to disruption of the business and many a time a beautiful flower created by the owner manager withers away. Hence, the need to manage the two parts of the business “Family” and “Business” equally well. The problem is directly related to number of siblings waiting to take over. Hence, an entrepreneur plans for this well in advance and ensures over a period of time that the family accepts it as a natural transition with clear cut controls between siblings and without any ambiguity. One needs to be careful to not allow conflicts to go unresolved. This becomes the basis of the business falling apart in the third generation since conflicts would
multiply and would become unsolvable. It is hence not only important to establish the sibling partnership but ensure that the seed is well sown for the next generations to come. The owner manager has respect, trust and still wields control. He is seen as a mentor and hence has an opportunity to do it.

**STAGE 3 COUSIN CONFEDERATION**

As the entrepreneur generation passes, the family size is enlarged and there is a higher level of expectation which needs to be managed. There is also a syndrome where the next generation through the cycle of business has realized that they need to branch out as separate businesses. This is where vision plays a part, and this is where the Family Council also comes in. The problem is less pronounced if the owner manager is still alive, since he responds fairly and squarely as the primary owner of business. This is where you also feel the democratization of the enterprise and you see it happening in the decision making process itself. As a result of the spread of the generations you also see the widespread nature of ownership dispersed along the length and breadth of the family, especially if the owner manager was successful. There is a certain amount of professional control coming in and hence you see lack of absolute control with a single person. Each one wants to prove his leadership and not be seen as laid back and hence ensures that he is part of the mainstream. It is at this point we see businesses moving away from one family to a completely different family because of the success of the other cousin. The threat from competition in the business and conflict in the family comes in together and poses a challenge. The sibling owner does make some effort to bring in some order if the cousin federation was part of his stay at the enterprise. You can generally see the difference in the levels of interest between the sibling partnership and cousin federation and you can perceive which direction and flow the business shall take. To bring in some sanity, rules are framed and bureaucracy does step in and as a result of which organizations start losing the “lean and mean” set up it enjoyed heretofore. Generally you see the falling apart of the business or consolidation with the other cousin. Rarely do you see the owner manager family in the set up. If it is there, they are not in control. If they are, then the family will almost start the business on evolved owner manager set up again. It is a business to be watched.

At each stage the success or failure of the family business can be attributed to critical thinking, creation of knowledge, transfer of knowledge, acceptance of the transfer and retention of it, assimilation of the knowledge and the practice of it by the transferor and the transferee.

20% of family businesses last beyond 60 years in the same family. Two thirds of the survivors will not grow. In India, only seven of the fifty largest groups in 1947 were in business in 1997. The average life span of family business is 24 years. Family businesses are largely path dependant and avoid innovation and change, and growth exceeding the family resources and management capacity. Indian family business surrenders their individuality to the general welfare of the family, (Dutta, 1997). Family business in general is synonymous with insider succession, though the practice differs in various countries.
STRUCTURE OF THE FAMILY BUSINESS

As is already explained in the previous chapter on Family, there are always specified hierarchies either due to age, wealth holdings, ability to enlarge the family set up, power wielded in the society and other established reasons. These are settled status levels which need to be challenged and/or to be replaced. Family business also represents a similar hierarchy order as established by the family order and does not change much. The sanctity of the Family order, and its presence in the family business in the same order, reflects the potential of the family business and its ability to manage the family and the business over a period of time. The concept of gender superiority is not a valid consideration in the family business especially in the western countries. In India and in typical Asian countries, the bias still exists for male members to be at the higher pecking order for consideration than the female members unless there are no male siblings. The hierarchy of wives of son’s of the family also has the same pecking order in the business with reference to stature and control. Hence, more often the structure of the family is also the structure of the business, irrespective of the fact whether the structure reflects possible success in the business or not. That becomes matter of posterity. Over period of time with the business expanding and also with the product range being enlarged or the value chain expanding or geographical reach out expanding; there came a necessity to look at near and dear family members. There was a need to move from immediate family dependants to the extended family, based on loyalty with no threat to the business controls. This was necessary to neutralize competitiveness and also to keep the business within the overall family. Profit sharing and royalty sharing was evident. This also became the norm to facilitate the entry of the next generation into the business especially if they came into the family through marriages. This more often happens in the sibling partnership stage or in the cousin confederation stage and is rarely seen in the first stage of the business. The chances of controls of the business becoming diluted or giving away the rights of the business do not happen in the normal manner. This is more of business taking over expanded business at a price if mutually accepted and is rarely seen in hostile takeover format. This is still within the family and can be visualized when business is split or vertically divided amongst the members. Structurally most of the times, the business starts out as a creative pursuit and moves in as a well defined hobby and when revenue prospects emerge, reflects as possible business opportunity. There are various companies like Ford Motor Company, Ferrari, Tatas and the Birlas are examples of the largeness of the Family Business that has evolved into corporations of distinction known throughout the world today.

2.6 LEARNING ORGANIZATIONS: FAMILY BUSINESS

Learning is a paramount consideration for successful negotiation of the business. Entrepreneurs and executives related to family businesses alike must adopt the posture of autonomous learning where thinking and adopting new behaviours related to the businesses are of paramount consideration. While monetary success is critical, it is important to ensure overall success of the business. Enzo Ferrari’s primary interest was racing and he spent considerable time on a prancing horse to satisfy his desire for racing, but he did not object to Ferrari making cars for racers who desired to drive his cars. Ownership definition ensures that learning transcends all borders and what is required is taught and also learned.
The following elements are critical based on the survey conducted by us to facilitate learning amongst existing members and the next generations spread.

- Clear and unambiguous definition of ownership
- Clear definition of responsibility centres
- Distribution of profit or loss
- Future admission and dissolution of membership
- Remedies for arguments.

Another survey was undertaken to realize and seek answers as to the motives that allow learning and the entrepreneurial spirit to sustain itself. The following elements emerged as very positive:

- Encouragement of creativity and risk management in many forms
- Support the desire for growth and learning
- Provide enough resources for learning
- Encourage initiative
- Model and encourage task performance
- Acknowledge the whole person in all forms

This aspect has been given its importance in the next chapter on knowledge transfer in greater detail as part of a learning organization.

### 2.7 SUCCESSION IN THE FAMILY BUSINESS

Handler (1994) classified in his research on succession, into five groups: (1) succession as a process, (2) the role of the founder, (3) the perspective of the next generation, (4) multiple levels of analysis, and (5) the characterization of effective successions. Longenecker and Schoen, (1978) defined seven stages of succession in the family business. They are (1) the pre-business stage, where the successor may only be passively aware of some facets of the organization; (2) the introductory stage, where the successor may be exposed by family members to jargon and the organization's members although he or she has not worked even on a part-time basis in the business; (3) the introductory-functional stage, where the successor works as a part-time employee; (4) the functional stage, where the successor enters the organization as a full-time member; (5) the advanced functional stage, where the successor assumes managerial responsibilities; (6) the early succession stage, where the successor assumes the presidency or as organizational head; and (7) the mature succession, where the successor becomes the "de facto leader" of the organization. The first three stages occur before the successor formally joins the business and can be termed as the learning phase.

It is often not easy for a founder of the enterprise to handover the business to his successor. Sonnenfeld (1988) found that there are various types of retirement styles of founders or CEOs. Monarchs do not leave until they are forced out or die. Generals also leave office only when forced out, but plan a return to power often to rescue the company from an inadequate successor. Sometimes the selection of inadequate successor is by choice. Ambassadors leave willingly and become advisors to the firm and perhaps would be the most practical approach. Governors rule for a term and then pursue other ventures.
High potentiality of the next generation to exercise personal influence in the family business, mutual understanding and a positive relationship with the predecessor, commitment to family business perpetuation, accommodative siblings and a feeling of parental non-negligence during childhood because of business involvement would lead to a positive succession experience. Iannarelli (1992), through his qualitative study of fifteen family firms found that factors critical to developing leadership interest in the family firm included time spent by the successor with the predecessor in the business, exposure to various aspects of the business; development of skills in the business, encouragement and positive attitude from the parent about the business; making an individual contribution to the team, and the time at which the opportunity to join was presented. Swogger (1991) described three dimensions of sibling relationships important to the intergenerational transition process: bonding versus rivalry; autonomy versus dependency; and leadership versus paralysis. According to the PwC, 2012 survey, family businesses in India ensure that the younger members of the family are trained within the company under the tutelage of the senior management, before they take leadership positions.

## 2.8 FAMILY BUSINESS RESILIENCE

Factors associated with resilience of family firms are family and social support (Hammond, 2003). Participation in community activities (Sommers, 2009), and being a part of a social community, (Jang, 2005) augments resiliency of an organization. Smilkstein et al. (1982) identified three processes that contribute to the family firm resiliency: family functional and structural integrity, and the family’s established pattern of adjusting to disruptions. Family functional integrity encompasses five components: adaptation, partnership, growth, affection and resolve. “Family resiliency” generally is the capacity and qualities of a family system to manage their substantial adversity successfully (Lavee, McCubbin & Olson, 1987; McCubbin & McCubbin, 1988; Patterson, 2002). Resiliency depends on an individual’s family and social traits to cope with situations of stress and grow from it (Walsh, 2003). Success of the family depends upon the business climate, capitalization, family health, succession issues, and mediating family dynamics. Individual characteristic of resiliency is closely associated with social competency, problem-solving skills, autonomy, optimism and social support (e.g., Cicchetti & Garmezy, 1993). When a firm is able to adapt these traits it can become successful, (Walsh 1994, 2003). Hobfoll’s Conservation of Resources (COR) theory (2001) states that occurrences of stress take place when resources are threatened, lost, or perceived to be unstable, or when individuals and groups are unable to see a path to the fostering and protection of their resources through individual or joint efforts. The Family firm’s resilience capacity provides the reservoir of potential resources which enables them to cope with disaster situations through individual or collective efforts for problem solving and bouncing back to the growth path, (Danes et al., 2008). Adjusting to normal but highly demanding situations is an indicator of family sustainability and resiliency (Miller et al., 2000). Family and firm size, number of roles being fulfilled in the family and firm, age and education of the family and firm managers, family income, whether the firm was home-based, and whether the family was entrepreneurial, are factors that affect the firms’ adjustment capacity. Family roles and responsibilities include the process of assignment of role, family bonding, shared values, norms and customs (Danes and Olson, 2003; Haberman and Danes, 2007). The Sustainable Family Business Theory (SFBT) recognizes financial, social and human capital as resources of the firm derived from the
society or the family which are subjected to socio-cultural, economic, legal constraints. Both in times of stress and normalcy SFBT perceives resource transactions as well as interpersonal transactions such as communication and family relationships to determine the firm’s sustainability.

In a survey carried out by the Asia-Pacific Family Business Network on “Next –Generation Family Business, 2010”, it was found that the top five differences they have with the previous generation was leadership styles, communication with family members, setting of corporate goals, monitoring business performance and preparing the next generation. Experts were of the view that it is essential for family members to spend a couple of years in pursuing education and experience outside their business and build their own network.

**FAMILY FIRMS FOCUS ON RESILIENCE MORE THAN PERFORMANCE**

A survey was done in 149 publicly traded family controlled businesses with revenue of more than $1 billion in USA, Canada, France, Spain, Portugal, Italy and Mexico. It was proved that they manage resilience in seven different ways:

1. They are frugal in good times and bad times
2. They keep the bar high for capital expenditure. They are very stringent
3. They carry little debt. They resist from giving too much power to the banks
4. They acquire fewer (and smaller) companies
5. Many show a surprising level of diversification
6. They retain talent much better than their competitor does
7. They go much more international

Professor Rendel Carlock, INSEAD’s Berghmans Lhoist chair professor in Entrepreneurial Leadership is of the view that the advantage of family firms over non-family firms in crisis situations such as recession is that they have “well-documented benefits of committed owners, a long-term strategy, industry knowledge accumulated over generations and values such as trust, stewardship and longevity.” He believes that taking bold decisions, managing risks through financial contingency plans, communication to keep stakeholders informed and motivated, effective family and business governance, demonstration of high values and stewardship, encouraging entrepreneurial behaviour in the next generation, shared values, norms, and beliefs help family business to survive in times of crisis.

**CASE STUDY: RESILIENCE IN THE US FAMILY BUSINESS**

A family firm’s existence as well as its scale and scope, are likely to be influenced by the characteristics of its external environment. Based on a sample of 6100 firms in the US, external conditions were analyzed that allow family firms to flourish. The external factors analyzed were:

1. Economic Development of the region
2. Culture
3. Industry Mix

The research has made the following contribution:

1. The answer to the question – in which situation do family firms flourish?
2. It has presented evidence that external factors do affect the incidence of family firms
Research Results:

1. FAMILY FIRMS AND ECONOMIC DEVELOPMENT:
The conditions of low income and low demand favour firms that can operate at lower costs. As family businesses have their own wealth, they can keep costs low and thus have advantages in regions with scarce capital and low availability of labor.

2. FAMILY FIRMS AND CULTURE:
The cultural diversity has a significant negative effect on the incidence of family firms, as homogeneity and stability are necessary for family firms to fully exploit the social capital available to them. Also, with diversity in the region, the need/value of family related social capital decreases thus, giving rise to more professionally managed non-family firms which may be at a disadvantage in environments where familiarity is an essential environment for doing business.

3. FAMILY FIRMS AND INDUSTRY MIX:
There is a negative relationship between the family firms and the retail sector but none with manufacturing and service.

Men and women owners perceive business sustainability differently. While men are profit and growth oriented in their approach, women prefer work-life balance, (Anna et al., 1989). Masculine approach in decision making is less people orientated, hierarchal with the objective of growth. Women leadership is participatory, people oriented based on historical familial values and seemingly resistant to growth (Bird & Brush, 2002). Women would look for social capital for resiliency in times of crisis.

Sustainability of the family business depends upon different factors depending upon the growth stage of its existence, (Dobson and Swift). Each growth stage is preceded generally by a crisis. Strong positive motivation is of pertinent importance for success at the start-up phase and the initial loss making period. Ability to raise finances through savings, mortgaging the house, start-up loans from a bank, borrowing from family members, market research and projection of cash flows is critical in this phase.

The next phase, which can be the called strategic development phase, is most challenging for a family business. This is the phase wherein firms are trying to cope up with the expectation of customer demand, technological changes and growing competition. The family finances may have drained during the start-up phase, so management of available resources is significant in this phase. Strain is often seen in family relationships in this phase. The final phase, when the business is stabilizing, in the family environment, succession plan is required for business sustainability. The successors may not share the same kind of business acumen or involvement with the business. Hence, family businesses do not survive beyond two-three generations and if they do, they must be complimented for their resilience.
CHAPTER 2: LITERATURE REVIEW: PART III - KNOWLEDGE AND KNOWLEDGE TRANSFER

3.1 CONCEPT OF KNOWLEDGE

Knowledge is perceived as relevant information gained through experience and education (Nonaka & Takeuchi, 1995; Cabrera-Suarez et al., 2001), which enables an organization to be innovative, remain competitive in the market (Polany, 1958, 1967; Nonaka, 1994; Nonaka and Takeuchi, 1995; Grant, 1996; Smith, 2001). Knowledge gained through experience and education is further factored by personal beliefs and values (Bender et al., 2000; Bollinger et al., 2001). Literature clearly distinguishes between pure knowledge (i.e. explicit knowledge) about the information and understanding of fundamental principles acquired through education (e.g. academic courses) and skills (i.e. tacit knowledge) which is, practical application of the knowledge gained from training, direct observation and active participation in activities, (e.g. Polany, 1967; Nonaka & Takeuchi, 1995).

For examining the concept of knowledge, and knowledge transfer, it is important to understand the concept of information forming navigational paths that can be toured, returned to, and referenced.

Hypertext is the first segment which is nothing else but non linear way of presenting information. Hypertext creates links between information called nodes (Vannear Bush “As we may think “1945). A node is an integrated and self sufficient unit of information relative to the complete document.

3.2 NONAKA INTERVENTION

Nonaka in his studies on knowledge transfer in the Family Business has developed several models (Nonaka “SECI”). In this research he has also specified a concept called “Semantic Networking”, which is nothing else but relationship description which can be described as “is a cause of” and “is caused by”. He has gone further and developed a definition of this network with nodes and links as a concept.

FIGURE 2-III-1: NONAKA KNOWLEDGE CREATION FRAMEWORK
THE NONAKA SECI MODEL

Professor Ikujiro Nonaka in his seminal work in 1995 revealed that knowledge creation is a spiraling process of interactions between explicit and tacit knowledge. This interaction leads to creation of new knowledge. The concept of Ba (context which harbours meaning), was originally developed by Kitaro Nishida and further developed by Shimuzu extensively reflects the SECI model.

BASIS OF THE MODEL

Tacit and explicit knowledge:

Michael Polanyi (1962) did this classification.

Tacit Knowledge is highly personal and hard to formalize. They are subjective insights and intuition, hunches and fare rooted in the ideals, values and emotions that a person embraces. Technical dimension is the personal skills at crafts and cognitive dimension is the belief in values and mental models.

Explicit knowledge can be transmitted through a formal systematic language. It is captured in the records of the past and can be expressed in words and numbers. More often this is the knowledge that is emphasized.

THE FOUR FACETS OF THE MODEL

1. Socialization was the Originating Ba

In a typical Business environment, this involves capturing knowledge through physical proximity, by being together, spending time together, living in the same environment, and does not normally involve written or verbal instructions. Here, one shifts to tacit knowledge through mentoring by observation, imitation and practice. The key to acquiring tacit knowledge is experience. This is almost the beginning of knowledge creation (Prof Nonaka, California Management Review 1998)

2. Externalization was the Interacting Ba

Here you express tacit knowledge by articulating it through interactive processes in the group. It involves articulation and translation into readily understandable forms. The individual shares the mental models of others, and also reflects and analyzes one’s own. This is a critical phase of knowledge transfer because one shifts tacit knowledge to explicit knowledge. This is the critical intervention stage of knowledge transfer in the family business. Dialoguing is a natural process.

3. Internalization was the Exercising Ba

Here the explicit knowledge is converted into organizational tacit knowledge. This is where the concept of "relevance" comes in. Simulations or learning of concepts in virtual situations is natural. It is here that you look at individual knowledge creation.
4. Combination was the Cyber *Ba*

This is a very critical knowledge transfer process. Here one converts explicit knowledge into complex sets of explicit knowledge. One captures and integrates the knowledge and disseminates it and spreads it and ensures usability through the process of editing. In the whole process, one ensures that justification takes place, and sometimes results in new knowledge. This is the virtual world interaction.

The model generated discussion and research in defining data, information and knowledge. It defines data as raw material of information. Information is the flow of messages and knowledge is justified true belief (Machlup, 1983), (Dretske, 1981)

Knowledge transfer in the family business has a context called Constructionism, (Seymour Report MIT media Lab). It is important to understand this concept because “it is an idea that happens felicitously”, in a context where the learner is engaged in constructing a public entity whether it is a sand castle on the beach or a theory of the universe. We all have times when we need to explain something we know to someone else. We have to think hard to convey it to others. We create an object of learning which the so called public entity becomes. Learning is reinforced through Constructionism. Social Constructionism as a perspective of the learning process utilizes the components of the learning process.

**KNOWLEDGE AND THE FAMILY BUSINESS**

Family Businesses (FB) are one of the most dominant entrepreneurial forces in today's global economy. In keeping with their desire to see their business survive and grow over the long term most FB owners design an exit strategy for themselves that will eventually transfer ownership and control of the firm to their offspring. A pivotal issue in successful intergenerational succession is ensuring that the next generation is well prepared to assume the leadership/ownership role within the firm. The foundation of this preparation is the transfer of knowledge from the current owners to the future owners, a process that is facilitated by strong functional relationship between generations. Knowledge is an enabler of business longevity in the family.

Yoo et al (2007) has carried out extensive literature review on different types of knowledge that can be shared. Knowledge that can be codified, that is, a checklist of customer and supplier database, management theories and models followed by organizations, product and process designs that can be learned, replicated or utilized if a suitable environment of commitment is created. Tacit knowledge, in knowledge transfer, is the collection of individual narration of success and failures and efficacies gained over years. This can be achieved in a collaborative learning environment with organizational commitment. Yet, another form of knowledge is knowledge-in-connectivity which is gained through interaction, identification of one's own knowledge gap, transmission of knowledge from each other. Knowledge-in-connectivity is facilitated by individuals or groups with shared norms, values and cultures. TATA Consultancy Service (Sharma, 2008) has adapted Nonaka’s (Nonaka, et al., 2000) strategy of SECI (Socialization, Externalization, Combination and Internalization) for capture and reuse of knowledge. Socialization implies knowledge shared in mutual interdependency in a company. Externalization implies knowledge shared during interactions with the external environment by attending conferences, training
workshops and alliances and partnerships with universities and organizations for knowledge acquisition. Internalization implies combination and application of knowledge base from external and internal sources for betterment of the organization.

Knowledge can further be classified according to its system-bound side of knowledge (information) which is called explicit knowledge and the people-bound side of knowledge (capacity and attitude) termed as implicit knowledge. Various researchers have characterized explicit knowledge by its ability to be expressed as a word or number, in the form of hard data, scientific formulas, manuals, computer files, documents, patents and standardized procedures or universal starting points that can easily be transferred and spread. Implicit knowledge, on the other hand, is mainly people-bound and difficult to formalize and therefore difficult to transfer or spread. It is mainly located in people’s hearts and heads. Know-what-knowledge and know-why-knowledge can be referred to as explicit knowledge, and, respectively, know-how-knowledge and know-who-knowledge as more person-specific implicit knowledge. Lundvall and Johnson, (1994) suggested a division between four types of knowledge: the ‘know-what’ refers to the facts of the business and the ‘know-why’ refers to the technological and scientific knowledge behind the business and production in the business. These two types of knowledge can be seen as explicit knowledge, even if some of the understanding on these issues may require elements of implicit knowledge as well. On the other hand, the ‘know-how’ refers to the skills and routines associated with the operations in the business, and the ‘know-who’ refers to the person-specific aspects of the business. Churchill and Hatten (1987) have developed a life cycle approach to describe the succession process between father and son in a family firm. They distinguish four stages: (1) a stage of owner-management, where the owner is the only member of the family directly involved in the business; (2) a training and development stage, where the offspring learns the business; (3) a partnership stage between father and son; and (4) a power transfer stage, where responsibilities shift to the successor. Research has established that the learning process for knowledge transfer is a “four C process”:

1. Connect: building new knowledge (exposing someone to new business)
2. Construct: learning by making (constructing knowledge in the mind)
3. Contemplate: taking time to reflect (allowing the concept & understanding to deepen)
4. Continue: being in the flow (desire to continue and see what happens)

It is possible to depict this diagrammatically as given in figure 2-III-2 below

![Diagram](image-url)

FIGURE 2-III-2: FOUR C’S OF KNOWLEDGE
3.4 SIGNIFICANCE OF KNOWLEDGE MANAGEMENT IN FAMILY FIRMS AND ITS DETERMINANTS

Succession is the lengthiest of strategic functions in a family firm (Barach & Ganitsky, 1995). It evolves decreasing involvement of the preceding generation and increasing involvement of the succeeding generation (Friedman, 1987; Churchill and Hatten, 1987; Cabrera-Suarez et al., 2001). A family firm can perform well if there is knowledge transfer from one generation to the other generation (Cabrera-Suarez et al., 2001; Kellermanns et al., 2004) and when there is further enhancement of knowledge by the successor by adding new knowledge and perspective (Handler, 1994; Kellermanns et al., 2004). Dun and Bradstreet (1991) and Caroll (1983) pointed out that two-thirds of businesses fail due to managerial incompetence and inaction and the agility of succeeding generations to create, transfer and share knowledge. There is also a form of idiosyncratic knowledge transfer that defines the success of family business, (Bjuggren et al., 2001).

Tacit knowledge is fragile and subject to decay or loss if it is not shared and passed on from generation to generation, primarily in the form of apprenticeship and mentoring. Pure knowledge can be easily shared and transferred within a family firm through courses, manuals, procedures and so on. Conversely, skill is invisible and personal. Transfer of skills needs more complex and longer processes to be shared and transferred.

3.5 SOCIAL CAPITAL OF THE ENTREPRENEUR

Social capital is defined as ‘the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships, of mutual acquaintance or recognition’ (Bourdieu, 1980, p. 2)

Social capital, which is the goodwill and resources made available to the individual or the family via reciprocal, trusting relationships (Adler & Kwon, 2002; Hitt et al., 2002; Lin, 2001), make a positive contribution to a firm’s outcomes, (Nahapiet & Ghoshal, 1998). Social capital’s contribution is derived from both intra- and inter-organizational relationships. Within the organization, social capital can reduce transaction costs, facilitate information flows, knowledge creation and accumulation (Burt, 2000; Lin, 2001; Nahapiet & Ghoshal, 1998), and improve creativity (Perry-Smith & Shalley, 2003). External to the organization, social capital increases an alliance’s success (Ireland et. al., 2002; Koka & Prescott, 2002). Aldrich and Aldrich, 1999; Dubini and Aldrich, 1991; Renzulli et. al., 2000 argued that entrepreneurs mobilize their family's social capital to help their ventures' economic success. Anderson et. al. (2005) and Jack (2005) established that the amount of family support for the entrepreneurs: family outside the boundaries of the firm is highly important for support and resources. Similarly, family members involved in the firm generate the firm’s initial network structure. The social capital of the entrepreneur includes external agents consisting of religious organizations and members, school ties, professional organizations, and community groups (Jack, 2005). Low and McMillan (1998) how entrepreneurs use knowledge, networks, and resources to construct firms is vital to its success. It has been found in Germany that personal networking of the founder increases the probability of the survival and growth of newly founded businesses.
3.6 KNOWLEDGE FOR RELATIONSHIPS

Working within the family firm is important in order to give the successors an opportunity to learn through experience, face-to-face interactions and develop skills every day, participating in problem solving and learning from mistakes (Daft & Lengel, 1984). Indeed, strong relationships between the two generations positively contribute to the stage “training and development of the successors” described by Churchill and Hatten (1987) in their four-stage model of succession (Seymour, 1993; Lansberg, 1999; Chrisman et al., 1998; Nahapiet & Ghoshal, 1998; Cabrera-Suarez et al., 2001; Le Breton-Miller et al., 2004). Social interaction between the generations contributes to social knowledge management across generations (Gersick et al., 1997; Cabrera-Suarez et al., 2001; McClendon & Kadis, 2004; Kellermanns et al., 2004; Salvato, Pernicone and Chirico, 2007) argue that successful strategic knowledge development over time is facilitated by social interactions between family members within and across generations.

TRUST

Trust plays a significant role in knowledge sharing in the family business. Thompson (1967) described three methods of task interdependency: sequential, pooling and reciprocity. Sequential and pooling interdependency rely on competency based task completion in subgroups independent of each other. But to create potential leaders, the organization must encourage reciprocal knowledge interdependency and create individuals with competency in all aspects of the task. There are three guiding principles of trust described by Newell et al. (2007): Ability, Benevolence and Integrity. Ability refers to the trustor’s confidence on the knowledge base and competency of the trustee, benevolence is the trustor’s faith on the goodwill and intention of the trustee. Integrity refers to trustee’s reliability and dependability under the trustor perspective.

Commitment Trust is found at the initial stage when the entrepreneur commits himself to work for fulfillment of the objective mainly with the motivation of reward of financial gain and challenge. Fear due to uncertainty is the psychological factor working at this stage. Roles are set for various team members, according to their documented competency. The interaction the entrepreneur has with the stakeholders is directed towards completion of the task. Integrity is the dominant factor at this stage.

This stage is soon followed by collaborative trust that is built over time, with employees and partners becoming aware of each other’s competency. They now develop a feeling of positive or negative feeling for each other. This is the stage probably when they start preparing the succeeding generation. The Ability factor is the key element at this stage of the trust development. Finally, we have companion trust that is based on the feeling of benevolence. It is developed through special interactions outside the periphery of work. Knowledge sharing is highest at this realm of trust.

Trust emancipates an individual’s “expectation about those actions of others which have a bearing on her choice of the action, when the action must be taken before she can observe the actions of those others” (Dasgupta, ibid, p312). In the family business, trust is required in conditions of fluctuating market and consumer demands and lack of formal legal control (Menning, 1997). High status friends, mother, wife, and outside advisors play the role of the trust catalyst in the family business (LaChapelle & Barnes, 2009). It plays a critical role in
the formation, maintenance and transformation of inter-organizational cooperative relationships (Neergaard & Ulhøi, 2006).

**MOTIVATION AND SELF EFFICACY**

A recipient and/or a source's lack of motivation to keep the business as a family firm and a low degree of commitment to the family business may negatively affect the accumulation of the knowledge process within the business (see, Nonaka and Takeuchi, 1995; Barach and Gantisky, 1995; Szulanski, 1996; Astrachan et al., 2002; Sharma, 2001; Sharma, et al., 2003; Le Breton-Miler et al., 2004; Koiranen and Chirico, 2006). Thomas (2001) postulated that, family relationships generate unusual motivation, commitment and loyalties, and increase trust although there is a decrease in values, beliefs, traditions and commitment after the second or third generation when problems usually arise/ (Tagiuri & Davis, 1996; Astrachan et al., 2002). Family members’ emotional bonding and sense of identity, belonging and responsibility over the business (Koiranen, 2006: adopted from Pierce et al., 2001, 2003) determine the sustainability of the business. Statistics indicate that only a third of the family businesses survive up to the second generation (Beckhard & Dyer, 1983; Handler, 1994; Lansberg, 1999), and less than 10% make it to the third generation within the same family (Handler, 1994). Along similar lines, recent research in the United Kingdom shows that only 24% of family businesses make it to the second generation and less than 14% make the transition to the third generation successfully (Bjuggren & Sund, 2001, 2002; Molly, Laveren & Deloof, 2010).

Sardeshmukh and Corbett (2011) argued that the successors of family business also need cognitive skills such as entrepreneurial self-efficacy (ESE) to recognize the opportunities as first person opportunities — not general opportunities in the greater marketplace but opportunities that are right for oneself (McMullen & Shepherd, 2006). Part of the opportunity recognition processes in the family business context may be affected by successors’ ESE — one’s confidence in his/her ability to perform activities related to entrepreneurship (Forbes, 2005).

**EMOTIONAL INVOLVEMENT**

Emotional involvement in the transfer of tacit knowledge including idiosyncratic knowledge is more plausible in family business (Tagiuri and Davis, 1996; Cabrera-Suarez et al., 2001; Coleman, 1988; Bjuggren et al., 2001; Kellermanns et al., 2004). Goldberg (1996) found that effective successors had many more years of experience working in the family business than did the less effective group of his study.

**EDUCATION AND TRAINING OUTSIDE THE FAMILY BUSINESS**

Successor’s self-development is enhanced through education and work experience outside the family business. Formal education teaches individuals concepts and generic skills that can be applied to most business context, irrespective of whether he/she is an entrepreneur or inheritor of the business. Furthermore, formal education can develop analytical skills and abilities that may be crucial for a decision maker. Education can give successors an ability to grasp management concepts and enhance managerial competencies. It also exposes the potential successor to new ideas and trends in management as well as technology. Such education is an important step in further building skills and gaining legitimacy in the organization. Overall, self-development outside the family business is
associated with better performance (Dimov & Shepherd, 2005), firm growth (Cooper, Gimeno-Gascon & Woo, 1994), and discovery of opportunities (Corbett, 2007; Davidsson & Honig, 2003).

3.6 TRANSFERRING KNOWLEDGE

Knowledge transfer in the family business has four types of relational capital — structural, cognitive, reflective and affection. All these four elements have to be present and be strong for effective knowledge transfer (Amanoff). Knowledge has long been recognized as a potential source of rent for the firm (Penrose, 1959). Recent scholars have singled it out as the most valuable asset that a firm can possess (Grant, 1996). Prahlad (1996), proposed “Knowledge based view of the firm”.

The need to integrate family and business interests in the FB over a lifetime creates particularly complex relational dynamics that can interfere with or enhance knowledge transfer. The process in which knowledge is created, shared, and transferred across generations has not been extensively studied. Relations between generations that are based on open constructive communication, mutual respect, sensitivity to each other’s needs, shared values, reasonable expectations, enable smooth knowledge transfer process. Other factors like age, gender, early involvement of the successor, commitment and dedication by both parties, ability to manage conflict are also important factors.

Knowledge especially tacit knowledge is hard to transfer, it is fragile and subject to decay or loss if it is not shared or transferred from generation to generation primarily through apprenticeship or mentoring. Explicit knowledge can be shared through courses, manuals etc. An important finding is “individual knowledge is the collective wisdom of the firm”, (Nonaka & Takeuchi, 1995), (Caberra-Suarez, 2001).

There are different boxes of knowledge transfer which need to be reviewed and the context analyzed.

1. Husband to wife
2. Father to daughter
3. Father to son
4. Mother to daughter
5. Mother to son
6. Father to daughter in law
7. Mother to son in law
8. Father to son in law
9. Mother to daughter in law

Each element shall differ in the individual context and have different take aways. Some elements are common though:

1. Importance of networking beyond the immediate family and introducing the successors to these contacts.
2. Developing a common understanding and shared language, maintaining an open mind to new ideas and expectation and managing the emotional processes.
3. The need to evolve from the above nine knowledge transfer relationships and to find a specific way of enriching the relationship
4. Learning by doing is more important than academic overview
5. High level of emotional involvement of family members and intense social interactions facilitate the knowledge interaction process
6. A definitive knowledge model related to the accumulation process of knowledge and viewed as an enabler of longevity is critical to be developed by each FB.
7. Working outside the family firm is critical for realizing the importance of the family firm and understanding interaction levels. It provides a detached perspective
8. Conservatism develops an attitude and hostile thinking to renewal
9. Family is at the heart of the processes of knowledge development

3.7 KNOWLEDGE TRANSFER IN THE FAMILY FIRMS AND THE DIFFERENCE FROM THE OTHER FIRMS:

There are several international scholars who have influenced the thinking of knowledge transfer like Popper, Lakatos, Feyeraband, Berger, Luckmann, Polanyi, Kuhn, Wieck, etc. They have related knowledge transfer from philosophy and sociological levels. Tsoukas has defined it as “Individual capacity to draw distinction, within a domain of action based on appreciation of the context or theory or both.

It reflects that knowledge is personal. In other firms, employees usually regard certain areas of their knowledge as part of their power base. For reasons of opportunism and self-interest they may share their knowledge more with other organizations than their own colleagues. Machiavelli once said “people make wars with neighbors, and alliances with far located partners.

Family firm members earn their living from the same source, their business, and hence they would like to know the past and present the future. Personal relations are stronger in the family firm. Perceived trustworthiness of the knowledge source affects knowledge transferability, (Szulanski, 1996-2006). The strength of the relationship between parents and children (New Generation Members) is what Coleman calls as Social Capital. The Family Firm’s reputation is closely linked to the Family reputation and the siblings have to be taught so that the business continues and builds. Knowledge transfer is not mechanical but interactive and embedded in existing capabilities on both sides and in the social relationships between them.

3.8 KNOWLEDGE TRANSFER THROUGH CRITICAL THINKING

Further research reflects that the SECI model overlooks critical thinking as a core element of knowledge transfer. This involves moving away from SECI through elimination of the socialization process. The premise is that knowledge is not received and transferred by just accepting the information they read.

Critical thinking is the intellectually disciplined process of actively and skillfully conceptualizing, applying, analyzing, synthesizing, and/or evaluating information gathered
from or generated by, observation, experience, reflection, reasoning, or communication as a
guide to belief or action, (Michael Scriven & Richard Paul, 1987)

It is being responsive to variable subject matter, issues and purposes and has several modes
to it like scientific thinking, mathematical thinking, historical thinking, anthropological
thinking, economic thinking, moral thinking, philosophical thinking etc., (Norris Stephen)

Critical thinking is the formation of logical inferences. (Simon & Kaplan)

Critical thinking is directed thinking because it focuses on the desired outcome (Halpern
Diana F). There are several other definitions and one can dwell on knowledge transfer
exclusively though critical thinking as an independent area of research. It is Sufficient to
relate to the process as an inevitable part to relate to tacit knowledge and reflect explicit
knowledge transfer process. As a result, a critical thinker interprets knowledge correctly
and accepts or rejects it for good reasons and draws reasonable conclusions. One starts
making choices and learns through discovery.

This process of knowledge creation and transfer, supports know how, know where, know
who, know what, know when, and know why. The essence of knowledge travel between
generations of the family business is a natural process of development of business leaders
in the context of Families and Family Business.

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**DYNAMIC DEVELOPMENT OF TRANS GENERATIONAL KNOWLEDGE**

**CREATION, SHARING AND TRANSFERING KNOWLEDGE ACROSS GENERATIONS**

Knowledge, especially tacit knowledge is hard to transfer and is subject to loss if not shared
or passed on from one generation to the other. Knowledge is created and then expanded
through social interactions from tacit and explicit knowledge and individual and collective
knowledge. Individual knowledge becomes part of the collective wisdom of the firm once it
is shared and transferred over time. Knowledge is a significant source of competitive
advantage, which enables an organization to be innovative and remain competitive in the
market. Knowledge in the family business is defined as pure knowledge and skill that
family and non-family members working in the family firm have gained and developed
through education and experience. One of the main issues in the family business is: how can
knowledge be created, shared and transferred to generate value across generations? A
third of family businesses successfully make the transition from each generation to the next,
while only 5% of family firms continue to create value beyond the third generation. Failure
of family firms might be partially explained by improper knowledge transfer.

“Working within the family firm”, having “face-to-face interactions” and “more generations
working together” allow family members to create and share their knowledge.
Furthermore, the most important issue for cooperation and collaboration is trust. The
greater the level of trust, the greater the level of openness and the better the opportunities
and willingness, especially for tacit knowledge to be created, shared and transferred over
time.

A recipient and/or a source’s lack of motivation to keep the business as a family firm may
cause poor creation, sharing and transfer of knowledge through generations. Motivation
generates commitment. A low degree of commitment may also cause poor creation, sharing and transfer of knowledge in the long term.

Psychological ownership is the psychologically experienced phenomenon in which the owners, managers and employees develop possessive feelings that the family firm is “mine” or “ours”. The hope is that the future generation will feel the same strong emotional attachment to the family business, which makes it easier to acquire, create, share and then transfer knowledge across generations. A strong emotional attachment to the family firm enhances motivation and commitment too.

A study of more than forty family firms indicates that a family's business culture plays an important role in determining whether the firm continues successfully beyond the first generation. The above mentioned factors allow a family firm to develop a strong organizational culture of continuous improvement and learning in which cooperation and collaboration carry a lot of weight in the creation, sharing and transfer of knowledge from one generation to the other. The dominant culture of a family firm is the result of beliefs, values, commitment, and goals rooted in the family.

Academic courses and practical training courses are a form of learning activity through which the people can re-experience what others have learned and have the opportunity to create new knowledge by combining their existing tacit knowledge with the knowledge of others. Working outside the family firm also helps individuals develop and identity and prepare for a wider range of problems that can occur later in the family business. Knowledge can also be acquired by hiring talented non-family members.

**DYNAMIC MODEL: FROM 'KNOWLEDGE' TO 'TRANS-GENERATIONAL VALUE CREATION'**

Knowledge leads to entrepreneurial performance (EP) through Dynamic Capabilities (DC). EP is defined as a new and competitive form of competitive advantage. Product-line expansion, diversification, expansion to new markets and adoption of new technologies are all examples of EP. DC is the major source of wealth creation and results from mechanisms of knowledge sharing, collective learning, experience accumulation and transfer. Transfer of knowledge involves both the transmission of information to a recipient and absorption and transformation by that person or group. Absorptive Capacity (AC) is a set of organizational routines and processes, through which firms acquire, assimilate, transform and exploit knowledge to produce dynamic organizational capability. In fact, AC is a DC which creates New Dynamic Capabilities (NDC). In turn AC and NDC generate new knowledge. Creation of value accumulated through continuous creation of business wealth is named trans-generational value. It is measured by focusing on the net asset value of the tangible assets, the estimated value of the intangible resources and the total of the firm’s balance sheet. It's a kind of value creation process created by human capital and DC through mainly innovation. Thus, the research successfully brings forth the factors that influence the creation, sharing and transfer process of knowledge and explores the process from knowledge to trans-generational value creation in the family business.
3.10 KNOWLEDGE AND LEARNING

One must “learn by doing”, for though you think you know it, you have no certainty till you try it. It is important to understand learning before understanding how knowledge takes place. It is a relatively permanent change in behaviour as a result of experience or knowledge a person has acquired, (Polanyi, 1976). The level of learning increases and new connections are made with events, some portion of this type of knowledge becomes permanent and will be maintained indefinitely. Assimilation must be enduring and hence learning is a step by step process. Family Firm owners hence must realize and start knowledge transfer for their next generations quite early in life. This can ensure effective knowledge transfer. The level of stress and the degree of uncertainty about the past successes will also determine the effectiveness of the learning condition. Knowing always is to a greater or lesser extent a skillful accomplishment, an art. Acquisition of knowledge will depend upon individual attitudes.

This learning or knowledge acquisition has three elements

1. A focal target or object
2. Subsidiary particulars or the subject
3. A person who links the two or mediating artifact

This tripartite model tacitly implies a form of transmission where knowledge is transferred in family firms. We can look at the family firm and correlate the above three elements to it

1. Enterprise is the object
2. Family the mediating artifact
3. Next generation the subject person

If the three components do not show potential to learn, unlearn, and relearn the final output may vary. The next generation members (NGM) are embedded in the family system from the time that they are born, and as the individual develops, his personality, habits and beliefs, the family transmits to him certain views and ideologies as well as memories and values that preserve certain behaviours, mental maps, norms and ideas. NGM apply their own interpretation and allow their actions to be impacted. This continuous feedback cycle, and is never ending, where traditions are adapted and redefined. Thus there are three variables which allow knowledge transfer:

1. NGM learning process must start at an early stage
2. Predecessors and the NGM must share commitment, values, expectations, and perceptions
3. The learning process must be constructed in such a way that they show solvable and challenging situations related to real life and the firms future work

There is still a great degree of work yet to be done in this field. The essence of this concept and the criticality of it in ensuring survival and growth beyond the Founder well into the second and third generation is a matter of concern.

We need to work further and bring about greater clarity in the Family business environment.