

Successional Transmission between Predecessor and Successor: Relational and Cognitive Perspectives

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Abstract: The primary objective of this study is to assess the impact of cognitive and relational factors on the transmission success of family firms. We developed and tested a model linking the successor's personal network and the successor's absorptive capacity to the success of the transmission process. The results of a case study carried out on a French transportation company underline the relevance of the two categories of factors for the transmission success. We contribute to previous work by blending in a single model two theoretical perspectives: a social perspective and a strategic perspective of the successional transmission factors of family firms.

Key words: successional transmission; relational factor; strategic factor; qualitative study

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1. Introduction

Predecessor-successor relationships continue to feed research in management and more particularly in entrepreneurship. Many works tried to develop the theory and the practice within family firm field and more particularly within the successional transmission process. A great part of literature about family firm transmission was focused on the identification of factors which can influence the success of the transmission. From this literature, it emerges that succession processes are complex and involve many factors at different levels of analysis (individual, relational and organizational) (Venter, Boshoff, and Mass, 2003).

The primary objective of this study is to identify the cognitive and relational factors from the successor perspective and to assess the impact of these factors on the succession success. Concerning relational factors, we are interested not only in relationships between the successor and his family members, as it is the case in the majority of previous works, but also in relationships that the successor develops with the stakeholders of the firm (e.g., customers, suppliers, bankers, etc.). This type of ties is largely underdeveloped in previous works. We suggest that personal relationships developed by the successor with his family members, on the one hand, and with the stakeholders of the family business, on the other hand, are not without consequences on the success of the transmission process.

In addition to personal relationships, the importance of knowledge flows received by the successor during his socialization leads us to wonder about his learning capacity and consequently about the factors which are central

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to this capacity. We suggest that the firm transmission success depends on the successor's information processing capabilities, that is, his absorptive capacity. The theory of absorptive capacity specifies the nature of human capital or knowledge-based resources that allows individuals to capitalize on external information (Cohen and Levinthal, 1990).

We try to answer the following question: to what extent personal network and absorptive capacity of the successor affect the success of transmission of a family firm?

A model was developed linking the absorptive capacity dimensions (knowledge base and reasoning mechanisms) (Deng, Doll, and Cao, 2008) and a critical personal network aspect (the strength of ties between the successor and his contacts) (Granovetter, 1973) to the success of the successional transmission process (as conceptualized by Cadieux and Lorrain (2002)) (Figure 1).

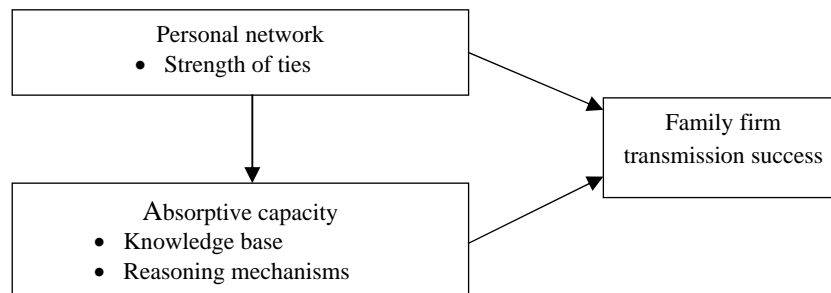


Figure 1 Conceptual Model

Through this model, we contribute to previous works on the successional transmission factors by blending in a single model two theoretical perspectives: a social perspective (Burt, 1992; Granovetter, 1973; 1985; Greve, 1995) and a strategic perspective (Cohen and Levinthal, 1990; 1994; Zahra and George, 2002). The latter is largely underdeveloped in previous work. We try to show that relational and strategic factors complement each other in fueling the firm transmission process.

In the following paragraph, we approach factors of the successional transmission as described in literature. Then, in the next two paragraphs, we establish a relationship between the personal network and the success of the transmission, on the one hand, and between absorptive capacity and the transmission success, on the other hand. The fifth paragraph is dedicated to the relationship between the personal network and the absorptive capacity of the successor. The two last paragraphs provide respectively the empirical study and the conclusion of the research.

2. Success Factors of the Successional Transmission

The definition of the successional transmission success varies from one author to another. For some authors, the success of the transfer is measured by the increase in the sales turnover and in benefits (Churchill and Hatten, 1987; Goldberg, 1996). For others, the success of a succession must consider, simultaneously, the financial performance, the reputation of the company and the progress of the succession process itself (Friedman, 1986). Still others were concentrated on the perception of the stakeholders' satisfaction (Sharma, Chrisman and Chua, 1997; Venter et al., 2003). Ding and Lee (2008) measure the success of the transmission by the continuity of the business and the firm performance after the succession.

Morris et al. (1997) suggest some crucial elements for firms having achieved a transmission of direction: a better preparation of successors, good family relationships and an important engagement of the family in the

financial planning of the transfer. More precisely, the main elements would be among other things the educational level of successors and their level of entry in the firm. According to this study, the higher the educational level is, the higher the post-performance will be. Conversely, the level of entry in the company is considered to be a negative factor in the sense that the higher the level of entry in the company is, the less the post transmission performance is.

Also, the quality and the nature of the relationship successor-predecessor in the success of the transmission were highlighted by many authors (e.g., Miller, Steier and Breton-Miller, 2003). Still further, the importance of the planification of the process was emphasized by many studies (e.g., Ward, 1987; Cliffe, 1998; Sharma et al., 1997). Other studies stress variables such as the level of education, the instruction and expertise of the successor for the success of his business.

Especially, some works show that the family firm must prepare its successor to the appropriate type of relational and human capital in order to adjust him to his new surrounding and ultimately enhance the succession success (e.g., Ding and Lee, 2008). Accordingly, a stream of research points to the importance of the successor's socialization with the firm's value and attributes. Socialization enables the successor to acquire the attitudes, behaviors and knowledge needed to fulfill his new role and function effectively in the organization (Van Maanen, 1976).

During the socialization process, family members and other stakeholders become committed to the successor because of their effort, time and resources spent on socializing him (Staw and Ross, 1987). Consequently, the socialization process is characterized by diverse flows of knowledge, knowhow and organizational practices from family members and stakeholders to the successor.

Building on the extant literature, this research considers the transmission process from the perspective of the successor and focuses on two factors which are central to the learning capacity of the successor and, consequently, to the success of the transmission process. They are: interpersonal relationships and absorptive capacity.

3. The Role of Personal Network in the Transmission Success

The personal network consists of all people with whom an individual has direct or indirect relationships. When it comes to entrepreneurs, one can think of partners, suppliers, customers, bankers, trade associations and family members (Greve, 1995). Thus, the personal network of an entrepreneur includes various categories of contacts. In this research, we distinguish intra-family personal relationships (between the successor and the family members) and extra-family personal relationships (between the successor and the business family stakeholders).

Furthermore, within intra-family relationships, a distinction is often carried out between intergenerational relationships (between the current generation and the next generation) and intra-generational relationships (between people belonging to the same generation, for example between siblings) (Handler, 1991).

In previous works, the personal network of an entrepreneur was characterized by various aspects (size, strength of ties, density, heterogeneity of ties, etc) (e.g., BarNir and Smith, 2002; Jenssen and Koenig, 2002). In this research, we are interested in one of the most discussed relational aspect of personal networks: the strength of ties between the successor and the different members of his personal network as a key factor for the success of the transmission of the family firm.

According to Birley (1985), during the business establishment process, the entrepreneur needs to get access to different resources. In addition to material resources (financing, buildings, equipments, etc.), the entrepreneur needs advice, information and moral support. In this context, the assistance received from either formal or informal contacts influences the evolution of the new company.

Interpersonal ties can be either strong or weak. Individuals having strong ties between them show a high level of proximity and intimacy and are motivated to bring assistance to each other and to share valuable resources when it is necessary (Granovetter, 1978). Handler (1991) suggests that intergenerational relationships and intra-generational relationships both influence the succession processes as well as the future strategic plans of the family firm. In this research, we consider these two types of interpersonal relationships as well as their impact on the succession performance.

Concerning intergenerational relationships, researchers report that predecessors are generally authoritarians and conservative regarding their strategy and are reticent to share their power. On the other side, successors are generally impatient for the strategic change, for the personal independence and are looking for opportunities in order to prove themselves (Sharma et al., 1997). On the other side, researchers argue that the quality of relationships established by the successor and the predecessor is a critical determinant of the succession process and is influenced by the mutual respect and the reciprocal comprehension of the needs of each other.

Intra-generational relationships have received a little attention compared to inter-generational relationships. In this perspective, previous works show that rivalry is common between brothers and sisters and it is crucial for the successor to be able to manage this rivalry within the family firm (Friedman, 1986). Most of literatures on family firms argue that conflicts cause damages and lead to the breach of the family project (Sharma et al., 1997).

Thus, Santiago (2000) suggests that relationships between family members are a critical element for a more subtle transition of the leadership. In other words, when family members support themselves mutually and work together in a coherent way, they are more likely to transfer the business to the following generation in a more effective way. Conversely, the process of succession can be sabotaged when there is an imbalance of power or a conflict in the family (Venter et al., 2003).

In this research, we argue that strong ties between the successor and his family members are a driving force for the success of the transmission process.

Proposition 1: The strength of ties between the successor and his family members positively influences the transmission success of the family business.

In addition to relationships with the family members, the personal network of the successor includes contacts with the stakeholders of the family project (customers, suppliers, bankers, associations, etc.). A previous work suggests that entrepreneurs who are technically qualified can fail to lead their project if they cannot manage their relationships with the firm stakeholders (Ding and Lee, 2008). Indeed, it is shown that the successor which is accepted by the firm stakeholders is likely to get legitimacy due to the development of strong ties between them which support, in its turn, the success of the transmission.

In this perspective, it is shown that when the successor has strong ties with the family project stakeholders, he may obtain their help, collaboration, knowledge and resources that allow him to acquire tacit knowledge relating to the family project and to learn the required skills necessary to ensure his new role. Similarly, relationships between the successor and stakeholders that are characterized by respect and mutual understanding improve communication flows and ensure that important information and resources are shared between them (Ding and Lee, 2008).

Also, extent research shows that the strength of ties determines, to a large extent, the type of resources that the entrepreneur receives (Jenssen and Koenig, 2002). The study carried out by Jenssen and Koenig (2002) reveals that strong ties are more efficient to access information (expertise, advice, information on customers and suppliers, information on financial sources), while weak ties are more efficient to get financing.

Given that the success of the transmission depends on the access to a set of resources that the successor need

in order to achieve the new work assigned to him, we suggest the following proposition.

Proposition 2: The strength of ties between the successor and the stakeholders of the family project influences the success of the successional transmission of the family business.

4. The Successor's Absorptive Capacity and the Transmission Success

Studies that consider the absorptive capacity at an individual level are quite rare (e.g., Deng et al., 2008; Gray, 2006; Lofstrom, 2000; Rejeb, Mezghani, and Quélin, 2011). According to Lofstrom (2000), the cumulative nature of knowledge as described by the absorptive capacity theory refers to the concepts of expertise and competence. The relevance of internal knowledge suggests that knowledge of the firm must be complementary to external information that the firm accesses. Thus, the author sets two dimensions: the knowledge complementarity and the individual expertise considered as key elements that refers to individuals' absorptive capacity. In a similar perspective, Gray (2006) was interested in the individual's experience and education. Finally, Deng et al. (2008) take a more direct approach in order to measure the absorptive capacity and propose two components: knowledge bases and reasoning mechanisms.

We have decided to adopt the conceptualization of Deng et al. (2008). This choice seemed the most suitable since the decomposition adopted by the authors, even if it has been developed for the case of information technology engineers, is the closest to the behavior of an individual engaged in a process of a successional transmission. We propose that the transmission process success requires, among other things, that individuals possess or develop a capacity to acquire new managerial knowledge, use or develop problem resolution competencies in order to assimilate and integrate the acquired knowledge and eventually use this knowledge in their new job.

4.1 Knowledge Bases

Complementarity between the successor's knowledge base and knowledge that he is likely to acquire during the transmission process, is particularly required. Generally, previous works show that the ability to learn from others depends on the similarity of knowledge bases between the source and the receiver of knowledge (Cohen and Levinthal, 1990).

Related knowledge facilitates the internalization of new information since they offer common communication rules and make easier the exchange of ideas and information. Knowledge bases similarity ensures that individuals can recognize the value of new information and promotes the assimilation process of new external information (Lofstrom, 2000).

Moreover, previous work suggests that the knowledge base is influenced by many factors (e.g., education, expertise and experience). In this perspective, literature on family firms suggests that when the successor has an experience in different areas, he can, more easily, build an ability to perform specific tasks. The successor is also more likely to build a self confidence in order to face challenges, and to promote his efficiency for the succession of the family firm (Ding and Lee, 2008).

Also, experience in different sectors or in activities in different stages of the value chain of a given industry, offers to the successor an overall view of the environmental challenges. Lee and Tsang (2001) underline this idea by arguing that the entrepreneur's industrial and managerial experience is the most influencing factors that affect the firm growth.

In addition to experience, the knowledge base is also depending on the expertise which refers to the extent to which an individual understands a particular knowledge area. In the context of a successional transmission, the

successor has to face an uncertainty because he lacks knowledge related to attitudes, behaviors and information that are necessary to achieve his new role and functions in the firm efficiently. So, we argue that the successor's knowledge base plays a considerable role in the transmission success.

Proposition 3: The successor's knowledge base positively influences the transmission success of the family business.

4.2 Reasoning Mechanisms

Reasoning mechanisms refers to problem resolution competences allowing individuals to integrate their knowledge, to create new ideas and to apply them in their work. These competences increase creativity and allow making associations and links that would not be considered before.

Individuals having high resolution problem capacities are more likely to understand, with a greater familiarity, the laws, logics and bases of a function or a process in a specific field. This familiarity offers to individuals the ability to identify, within a complex situation, critical relationships between different elements and different situations related to the solution looked for (Lofstrom, 2000). Thus, reasoning mechanisms allow individuals to develop knowledge structures permitting them to better understand the relationships between their knowledge, on the one hand, and new external information on the other hand.

In this perspective, individuals are able to articulate their knowledge and their beliefs as regard to successful processes and to consider problems in a creative and critical way. These mechanisms also allow individuals to assimilate and apply new information in order to resolve problems in a rapid and efficient way. Consequently, a successor with a high level of problem resolution competences is more likely to learn as compared to a successor with a low level of such competences. So, we suppose that problem resolution enhances learning that contributes, subsequently, to the success of the transmission of the family firm.

Proposition 4: The successor's reasoning mechanisms positively influences the transmission success of the family firm.

5. Personal Relationships and Absorptive Capacity

Literature reveals that interpersonal exchanges influence the elements of individual's absorptive capacity. Indeed, it is argued that persons with whom an entrepreneur interacts bring information and resources that lead to the establishment of a project (Greve, 1995). External information and knowledge complement the knowledge base of the individual and consequently fuel his absorptive capacity.

Moreover, it is recognized that strong ties are an important condition to ensure significant exchanges of information, an opened discussion of new information and also to raise issues due to a misinterpreting of information. These exchanges are likely to subsequently influence the problem resolution capacity of the successor in the context of a firm transmission.

Proposition 5: The successor's personal network positively influences his absorptive capacity in the context of a family firm transmission

6. Empirical Setting

6.1 The Case of a Transportation Family Firm

It is in 1985 that comes the idea to Mr. Bernard to create his transportation company. This entrepreneur has managed to exploit an opportunity that has arisen to him: he knows well the sector and maintains good

relationships with its representatives.

During its creation, the company rested exclusively on its creator and gradually, its manpower moves from 2 to 15 people. The current sales turnover is 1 million Euros and would be more important if the strategy of development were implemented. Arriving at retirement, the father is needed to ensure his succession. He decided, in 2000, to put in charge his oldest son (Jacques). The latter was seriously involved in the company and was able to explore all the functions within the organization like the delivery function that he is actually ensuring.

In 2007, Mr Jacques agreed with his father to undergo a transmission in order to ensure the succession of the company. This operation allows Mr Jacques to take the family firm at a capitalistic level but the father continues to be present in order to help his son in the direction of the firm. At this stage, some conflicts begin to arise, allowing us to explore some factors that are likely to impact the success of the transmission of the family firm, mainly: the role of personal network and of absorptive capacity of the successor.

6.2 Methodology

6.2.1 Research Design

The successional transmission of family firm is a complex concept. So we propose to carry out a qualitative study in order to explore this phenomenon. We will be based on the absorptive capacity and the personal network perspectives.

6.2.2 Sampling Design

In order to ensure a good qualitative study, we were based on stories of employees that have been in the firm since the beginning of the entrepreneurial venture and also stories of the stakeholders of the firm (suppliers, customers, family members...). The study combines interviews with predecessor, successor, family members, employees.... as well as documents that transcribe the story of the family firm (Miles and Huberman, 1994).

6.2.3 Data Collection

Secondary data—We were based on internal reports, financial statements, etc. in order to better understand this organization. This allows us to structure our interview guide. Then, while based on the work of Zimmer et al. (2008), data were collected by semi-structured interviews with eight persons that participated in the successional transmission process. We have thus proceeded by interviews either with the successional or with the predecessor in order to avoid biases and to accumulate data.

A qualitative approach allows us to better understand and to get the global set of information on the studied process. According to Miles and Huberman (1994), qualitative data are extensive and have an encompassing character with a high potential of complexity decoding.

Interviews, conducted between January 2010 and March 2011, lasted between 1 and 2 hours. Each participant was asked to comment on the following topics: (1) The definition of family firms; (2) The performance of family firms; (3) The transmission's key success factors; (4) The important role of the predecessor; (5) The importance and definition of the successor role; (6) The personal network, its definition and its impact on the succession success; (7) The importance of the absorptive capacity concept, its definition and its impact on the succession success; (8) Traps to avoid during a transmission; (9) the importance of learning and of knowledge transfer between predecessor and successor. Collected data were analyzed through a content analysis.

6.3 Results and Discussion

The analysis of interviewee's reports leads us to empirical and probably theoretical findings. The first analyzed point concerns the place of the successor in the process of the successional transmission of the family firm. Indeed, the relationship established by the successor with the founder influences not only the performance of

the succession process as the relationships between the successor and the other family members are also important for the successor since they are the most influential persons on the family business. We have noticed that the successor gives a capital importance to advisory opinions of his family members concerning some problems. We have also noticed that in general, relationships between the two main parties of the transmission (the successor and the predecessor) are hard. The remaining family members play a catalytic role in order to judge some problems faced by the successor. Thus, in the majority of cases, family members try to reduce the divergence of opinions and to find a balance between the dynamism of the successor and the know-how and the experience of the predecessor.

So, we can argue that the strength of ties between the successor and his family members positively influences the success of the transmission of the family firm. Thus, we support proposition 1 of our conceptual model.

We were also interested in another type of relationships: those between the successor and the other stakeholders of the firm. The content analysis shows that:

(1) Relationships with employees:

The relationships with senior employees are quite tense. The latter feel obliged to fill the successor's orders. Conversely, for juniors, the transmission is welcomed. They argue that the successor is more flexible and more understanding. These factors incite them to work hard for the firm that they have "adopted".

(2) Relationships with suppliers:

The firm works with a single supplier. The trusty relationships, established between the predecessor and the supplier, allow the former to reach an ongoing turnover. For example, at the beginning, the chief of quay, an old contact of the father and who became gradually a friend of the family, allowed them to ensure their whole turnover. But he did not get along with the successor. A change of chief of quay by a young man changed the situation. The relationships between the successor and the new chief of quay have evolved and occur very well: more rigour and more formalism, a new managerial approach which is appropriate for the two parties.

(3) Relationships with customers:

For customers, the change was interesting since it was accompanied by more rigour and punctuality of deliveries. So, we argue that, in the case of this successoral transmission, the strength of ties between the successor and the different stakeholders of the family project positively influences the success of the successoral transmission of the firm. We accept proposition 2 of our model.

Moreover, our results show that the successor have a better capacity of problem resolution in a rapid and efficient way than the predecessor. The majority of stakeholders consider the successor's approach of problem resolution is more professional than for his father. It is a "more pragmatic and more formal approach", as they said. The firm's supplier thinks that it is an important quality for the successor. So, we can agree in this case, that problem resolution mechanisms positively influence the success of the transmission of a family firm. We support proposition 3.

In addition, it is noteworthy to highlight that the presence of the son during seven years alongside his father allowed him to acquire the majority of the know-how and the experience. This learning was strongly contrasting with the father's knowledge, and decisions taken actually are strongly influenced by the father's mindset and experience. Nevertheless, this was complemented by the experience acquired on the field by the successor. So, we can prove that the successor's knowledge base positively influences the success of the transmission of the family firm. This was the object of proposition 4.

Finally, we also agree with the proposition 5 that the successor's personal network positively influences his

absorptive capacity in the context of a family firm. Indeed, our results underline that relationships between the successor and his family allow him to get more incited to learn on the field alongside the predecessor since, in general, conflicts are rapidly resolved. The successor and his family are in harmony since they rapidly find the appropriate solutions for their problems.

7. Conclusion

We have tried during our investigation to highlight explanatory factors of the success of the transmission process of family firms. Many factors intervene to enhance or, conversely, to impede the smooth progress of the transmission process. In this paper, we were focused on two key factors: the successor's personal network and the successor's absorptive capacity. So, we have established five propositions that we have tested in an exploratory study.

The obtained results have theoretical and practical implications. Indeed, the conceptual model that we have developed and tested allows the integration of two different but complementary bodies of research: the social network approach and the absorptive capacity theory. We have tried to emphasize this complementarity by establishing a direct link between personal network and absorptive capacity.

Moreover, the successor's absorptive capacity and the successor's personal network prove to be positively related to the success of the transmission. So, on a practical level, successors and predecessors have to give more attention to these key factors. Particularly, predecessors have to manage the frustration inherent in the entry of the new successor. This frustration is due to the fact that the successor does not have yet the routines necessary to manage his interactions with others. In these conditions, predecessors have to support their successors by helping them to adapt to their new environment and to learn the attitudes, behaviors and knowledge necessary to fulfill their new function effectively.

Given the exploratory nature of our study, future research would gain to test our propositions on a large sample of entrepreneurs in order to overcome the main limit of the current research: the sample size, and consequently to generalize our propositions.

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