

Knowledge Creation in Family Businesses and Its Importance for Building and Sustaining Competitive Advantage during and after Succession

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Abstract

The family business's tacit knowledge, embedded in its founder, and its transmission is found to be important for building and sustaining competitive advantage since this type of knowledge is difficult to trade and imitate, scarce, appropriable and specialized. The purpose of our research was to broaden our understanding of family businesses tacit knowledge and its creation during the succession process by applying the concept of knowledge creation through so called SECI process. The case study-based findings showed that founders and successors find mentoring, internal/individual training, and involving in the meetings with business partners as the most used knowledge creating activities. We suggest that tacit knowledge creation during succession should be placed in broader context of organizational knowledge creation in order to raise the total quality of successor's knowledge and adding new knowledge thus contributing to building family business's competitive advantage.

Keywords: tacit knowledge, explicit knowledge, knowledge creation, family business, succession, competitive advantage

1. Introduction

Knowledge, which is viewed as relevant and actionable information based on experience and education (Cabrera-Suárez, De Saa-Pérez, P., & García-Almeida, 2001; Nonaka, 1994), is an important source of competitive advantage. It enables organizations to be innovative and remain competitive in the market. In Nonaka's opinion (1994, p.14) any firm that "... dynamically deals with a changing environment ought not only to process information efficiently but also create information and knowledge." Successful companies are those that consistently create new knowledge, disseminate it widely throughout the organization, and quickly embodied it in new technologies and products (Nonaka, 1991). For these reasons the organizational knowledge creation theory is trying to explain the dynamic processes of organizational knowledge creation (Nonaka, von Krogh, & Voelpel, 2006; Nonaka & von Krogh, 2009).

In family businesses, which are an important group within the small and medium-sized sector (e.g., Mandl, 2008), the firm's specific knowledge (so called tacit knowledge) and the ability to create and transfer it, are considered a key strategic asset that may be positively associated with higher levels of performance and sustainable competitive advantage because they are difficult to trade and imitate, scarce, appropriable and specialized (Cabrera-Suárez et al., 2001; Chirico, 2008). Sharma (2004) specially points to strategic importance of transferring tacit knowledge to the next generation in order to maintain and develop a family business after taking over the control by the next family generation. However, not only transfer of tacit knowledge from previous to the succeeding generation is of crucial importance. The new generation has to add new knowledge (e.g., Chirico, 2008), thus contributing to the firm's performance and competitiveness during and after the transfer of leadership and ownership rights. Therefore, we find the process of knowledge creation during the succession process of crucial importance.

Many research studies suggest nurturing, preparation and development of successor(s) to be one of the most important predictors of successful succession (e.g., Le Breton-Miller, Miller, & Steier, 2004; Dyck, Mauws, Starke, & Mischke, 2002; Morris, Williams, Allen, & Avila, 1997). Different research studies address the role of career development, outside work experiences, mentoring, apprenticeship, on-the-job training, formal education and the role of training programs in the process of preparing and developing a competent leader (e.g., Chirico, 2008; Le Breton-Miller et al., 2004). However, none of the research studies try to address the issue of family business succession from the organizational knowledge creation perspective (e.g., Chirico, 2008; Zahra, Neubaum, & Larrañeta, 2007). The main goal of our research is to fill this gap and to broaden our understanding of family business succession as organizational knowledge creation process. We believe that by viewing the succession as a knowledge creation process the transfer of a family business to the next family generation can indeed represent "...a strategic opportunity for an organization, particularly for those firms in growing and dynamic markets" (Dyck et al., 2002, p.144). Specially, our study aims at tacit knowledge creation since it is a foundation for innovation (Nonaka & von Krogh, 2009) and thus of crucial importance for building and sustaining the firm's competitive advantage. We explicitly refer to the management succession from founding (i.e., first) to the second generation (e.g., Le Breton-Miller et al., 2004) and not ownership succession, well aware that frequently the two might happen simultaneously. We build our study on Nonaka's (1994) four "modes" of knowledge conversion, which are also called SECI (i.e., four-stage conversion) process (Nonaka et al., 2006) consisting of socialization, externalization, combination and internalization.

We find our research to be of importance due to some estimations that only 30 percent of family enterprises survive the transfer from founders (i.e., first) to the second family generation because of unsolved or badly solved succession and many enterprises fail soon after the second generation takes over control (Kets de Vries, 1993; Miller, Steier, & Le Breton-Miller, 2003; Morris et al., 1997). Failure in succession represents a serious problem, not only to family businesses and their employees, but also to the prosperity of national economies. Namely, estimated share of family businesses in European Union (EU) is 70-80 percent of all enterprises (Mandl, 2008) and in the United States, family enterprises account for 80 percent of business organizations (McCann, DeMoss, Dascher, & Barnett, 2003). We conducted case studies of twelve family firms in Slovenia, which is a former socialist country and a member of European Union (EU). It is estimated that between 40 to 60 percent (even 80 percent) of Slovenian SMEs are family ones, majority of them being in the ownership of the first family generation (Duh, 2008). Slovenia. Due to strong presence of family businesses worldwide, we believe that our research findings could be of importance for academics, professionals and owners/managers of family businesses in different economies, especially for family businesses in many Central and Eastern European post-socialist countries. Family businesses in these countries are nowadays approaching the challenge of managing the transfer of ownership and management for the first time (Duh, Tominc, & Rebernik, 2007; Mandl, 2008). The review of studies conducted in these countries indicates (Duh et al., 2007; see also national reports in Marketpalces, 2006) that the majority of family businesses are owned by the first family generation.

Our paper is structured as follows: following the introduction chapter the teoretical backgrounds of research are briefly discussed. Research design and sampling with data collection are presented, followed by data analysis and discussion of results on knowledge creation during family business succession. The paper ends with a conclusion chapter indicating main research findings and future research directions.

2. Theoretical Background

2.1 Tacit Knowledge and Knowledge Creation

The literature clearly distinguishes between explicit knowledge (e.g., Nonaka, 1991; Nonaka, 1994), also defined as "pure knowledge" (Chirico, 2008) regarding the information and understanding of fundamental principles acquired through education, and tacit knowledge (e.g., Nonaka, 1991; Nonaka, 1994) or "skills" (Chirico, 2008) which is the ability to apply the accumulated pure knowledge through experiences gained. Explicit or codified knowledge can be transmitted in formal, systematic language (Nonaka, Toyama, & Konno, 2000). This type of knowledge has a universal character and supports the capacity to act across the context (Nonaka & von Krogh, 2009). Tacit knowledge has a personal quality and is deeply rooted in actions, procedures, routines, commitment, ideals, values and emotions. This type of knowledge can be hardly formalized or expressed (Nonaka et al., 2000). It is context specific due to the fact that it appears and develops through the interactions between an individual and situation

(Nonaka, 1994). Tacit knowledge includes both cognitive and technical elements, whereas cognitive elements center on so called “mental models” in which human beings form working models of the world and technical element of tacit knowledge covers concrete know-how, crafts and skills that apply to specific context (Nonaka, 1994).

In the context of knowledge we found of importance the notion of knowledge assets which are according to Nonaka et al. (2000) the key elements that facilitate knowledge creation processes and can be inputs, outputs and moderators of knowledge creation process. Nonaka et al. (2000) categorized knowledge assets into four different types: experiential, conceptual, systemic and routine knowledge assets. For our research the following two categories are of importance: (1) experiential knowledge assets, which are tacit knowledge shared through common experiences, such as: skills and know-how of individuals, emotional knowledge (care, love, trust, and security), energetic knowledge (energy, passion, and tension, enthusiasm) and rhythmic knowledge (improvisation and entrainment); (2) routine knowledge assets, which is tacit knowledge routinized and embedded in actions and practice, such as: know-how in daily operations, working practices, organizational routines and organizational culture.

Tacit and explicit knowledge are not two separated types. They are inherently inseparable (e.g., Nonaka & von Krogh, 2009) and “mutually complementary” since they dynamically interact with each other in creative activities by individuals and groups (Nonaka, 1994; Nonaka & von Krogh, 2009). Within the knowledge creation theory the concept of “knowledge conversion” (Nonaka & von Krogh, 2009) explains how tacit and explicit knowledge interact along a continuum. Nonaka (1994, 18) differentiate four “modes” of knowledge conversion or so called SECI (i.e., four-stage conversion) process (Nonaka et al., 2006) consisting of socialization, externalization, combination and internalization. Socialization is a process of creating tacit knowledge through face-to-face interactions or shared experiences (i.e., conversion of tacit knowledge into tacit knowledge). An individual can acquire tacit knowledge without language. For example, apprentices work with their mentors and learn craftsmanship not through language but by observation, imitation, and practice. In firms, on-the-job training uses the same principle. Without some form of shared experience, it is extremely difficult for people to share each others’ thinking process (Nonaka et al., 2006).

Externalization is conversion of tacit knowledge into explicit knowledge (Nonaka et al., 2006). Knowledge loses some of its tacit nature through the process of externalization and can expand beyond what a single individual might know. As it moves along the continuum to become more explicit, knowledge becomes a basis for reflection and conscious action, and become less costly to share with others (Nonaka & von Krogh, 2009). According to Nonaka (1991) “metaphor” and “analogy” plays an important role in this process.

Combination is conversion of explicit knowledge into explicit knowledge (Nonaka et al., 2006). It involves the use of social processes to combine different bodies of explicit knowledge held by individuals. Individuals exchange and combine knowledge through different exchange mechanisms (e.g., meetings, telephone conversations). The reconfiguring of existing information through the sorting, adding, recategorizing, and recontextualizing of explicit knowledge can lead to new knowledge. Combination is rooted in information processing.

Internalization aims at embodying explicit knowledge into tacit knowledge (Nonaka et al., 2006). Internalization is an individual, psychological process and bears some similarity to the traditional notion of “learning”. Explicit knowledge can be shared at low cost amongst individuals and loses some of its explicit nature through internalization, where people move to act on the knowledge. “Movement” here implies that individuals acquire tacit knowledge through action, practice and reflection. Tacit knowledge, therefore, contains elements of explicit knowledge as well as rich “situated” elements, that is, elements unique to action and practice (Nonaka & von Krogh, 2009). In Tabel 1 each conversion mode is illustrated with knowledge creation activities.

Table 1. Knowledge creation activities within four conversion modes

Modes	Knowledge creation activities
Socialization mode	<i>Employee rotation across areas</i>- helps employees to understand the business from different perspectives (Becerra-Fernandez & Sabherwal, 2001; Chou & He, 2004). <i>Brainstorming retreats or camps</i> - informal meetings for detailed discussion to solve problems in developmental projects (Becerra-Fernandez & Sabherwal, 2001). <i>Cooperative project across directorates</i>- a self organizing team that consists of members from different functional departments who work together to achieve joint goal (Becerra-Fernandez & Sabherwal, 2001; Chou & He, 2004). <i>Apprenticeship</i> - apprentices work with their mentors and learn the tacit knowledge needed in their craft (Becerra-Fernandez & Sabherwal, 2001; Chou & He, 2004; Nonaka et al., 2000). <i>Mentoring</i> - an effective way of transferring critical skills and knowledge; mentors also teach norms of behavior and transfer knowledge about the values of a firm; also suitable for internalization (Swap, Leonard, Shields, & Abrams, 2001). <i>Stories/storytelling</i> - powerful for transferring knowledge rich in tacit dimensions and often implied moral; also suitable for internalization (Swap et al., 2001). <i>Intra-firm social information collection</i> - so called “wandering inside”, where managers find new strategies and market opportunities by wandering inside the firm (Nonaka et al., 1994). <i>Extra-firm social information collection</i> - so called “wandering outside” (Nonaka et al., 1994). <i>Interactions with customers and suppliers</i> - acquiring and taking advantage of the tacit knowledge embedded in customers or suppliers (Nonaka et al., 1994; Nonaka et al., 2000). <i>Informal social meetings</i> – meetings outside the workplace, where tacit knowledge such as world views, mental models and mutual trust can be created and shared (Nonaka et al., 2000).
Externalization mode	<i>Capturing and transferring experts’ knowledge</i> - tacit knowledge of customers and experts is translated into understandable form (Becerra-Fernandez & Sabherwal, 2001). <i>Chat groups/Web-based discussion groups</i> - used for extracting tacit knowledge from employees (Becerra-Fernandez & Sabherwal, 2001). <i>Problem-solving system</i> - based on a technology like case-based reasoning and decision support systems (Becerra-Fernandez & Sabherwal, 2001). <i>Groupware and other team collaboration tools</i> - dialogue, listening and contributing to the benefit of all participants strongly supports externalization (Becerra-Fernandez & Sabherwal, 2001). <i>Modeling based on analogies</i> - using analogies as well as metaphors is highly effective in fostering direct commitment to the creative process (Becerra-Fernandez & Sabherwal, 2001). <i>Pointers to expertise</i> - highly personal or highly professional knowledge of customers or specialists is translated into explicit forms (Becerra-Fernandez & Sabherwal, 2001).
Combination mode	<i>Databases and repositories of information, best practices, and lessons learned</i> - reconfiguring of existing information through sorting, adding, combining, and categorizing of explicit knowledge can lead to new knowledge (Becerra-Fernandez & Sabherwal, 2001; Chou & He, 2004; Nonaka et al., 2000). <i>Web-based access to data</i> - the combination of explicit knowledge is most efficiently supported in collaborative environments using information technology (Becerra-Fernandez & Sabherwal, 2001; Chou & He, 2004). <i>Web-pages (Intranet and Internet)</i> - individuals exchange and combine knowledge through information technology (Becerra-Fernandez & Sabherwal, 2001; Chou & He, 2004; Nonaka et al., 2000). <i>Planning strategies and operations</i> -managers assemble internal and external data by using published literature, computer simulation and forecasting (Nonaka, Byosiene, Borucki, & Konno, 1994).
Internalization mode	<i>Learning by observation</i> - focused training with senior mentors and colleagues (Becerra-Fernandez & Sabherwal, 2001; Chou & He, 2004). <i>Learning by doing</i> - allow the individual to access the knowledge realm of the group and the entire organization (Becerra-Fernandez & Sabherwal, 2001); explicit knowledge can be embodied through simulations or experiments (Nonaka et al., 2000). <i>On-the-job training (OJT)</i> (Becerra-Fernandez and Sabherwal 2001) and <i>training programs</i> (Nonaka et al., 2000) - help trainees to understand an organization and themselves. <i>Face-to-face meetings</i> and designing physical meeting space are essential for internalization (Becerra-Fernandez & Sabherwal, 2001; Chou & He, 2004).

2.2 Family Businesses Succession

Since knowledge is an important source of competitive advantage and long-term success, the knowledge creation is a major challenge faced by any companies every day (e.g., Nonaka, 1994). This is especially challenging for family businesses during the succession process (e.g., Cabrera-Suárez et al., 2001; Chirico, 2008), where the realization of effective succession depends very much on the next generation. According to Longenecker and Schoen (1996) the parent-child succession in the leadership of a family business involves a long-term diachronic process of socialization. It means that family successors are gradually prepared for leadership through a life-time of learning experiences. The preparation spans over many years and covers several successive positions, that is from non- or informal involvement over functional roles of a successor to early and mature succession, when a successor actually take over the leadership position and is relatively autonomous in that role. Handler (1994) exposed the need of mutual role adjustment between predecessor/transferor and successor. According to her model the transferor evolves from the role of monarch over delegator to advisor; the successors in turn evolves from helper over manager to leader.

The knowledge transfer, especially the transfer of tacit knowledge from predecessor to successor and successor's training to take over the leadership are found to be key processes in developing and protecting knowledge and guaranteeing the continuity of a family business (e.g., Dyck et al., 2002; Le Breton-Miller et al., 2004; Morris et al., 1997). Research findings indicate that business transitions are realized more smoothly when heirs are better prepared and the education level of successors positively influence the post-transition performance (Morris et al., 1997). In the training process a successor must capture both explicit and tacit knowledge that ensure his or her future performance in the top management tasks (Cabrera-Suárez et al., 2001). Members of the next family generation has to acquire business and industry knowledge (i.e., often tacit one), develop several abilities (like decision making), create networks and social capital, develop passion, innovative spirit, legitimacy as well as acquire credibility from both family and non-family stakeholders (e.g., Mazzola, Marchision, & Astrachan, 2008). Specific family techniques and knowledge have to be transferred to the next generation, in order to make customers believe in high quality level of products and services (e.g., Dumas, 1998).

Since the criteria of successful succession is "positive performance and viability" of a family business after the succession (e.g., Handler, 1994; Le Breton-Miller et al., 2004; Morris et al., 1997; Sharma, Crisman, & Chua, 2003) and knowledge accumulation is viewed as an "enabler of longevity" (e.g., Chirico, 2008), many research studies suggest nurturing, preparation and development of successor(s) to be one of the most important predictors of successful succession (e.g., Le Breton-Miller et al., 2004; Dyck et al., 2002; Morris et al., 1997). Our case study research aims at broadening our understanding of succession process as knowledge creating process bringing in the center especially the tacit knowledge creation.

3. Method

3.1 Research Design

We used a case study research methodology to analyze the tacit knowledge creation during the succession process. Many authors (e.g., Lambrecht & Lievens, 2008; Chirico, 2008) argue that qualitative methods are needed in the field of family businesses research since this type of businesses is characterized by complex relationships and interactions that actively construct reality. We used a multiple-case study approach, where replication logic was possible (e.g., Yin, 2003). The multiple-case study approach proved to be a useful approach in knowledge research (e.g., Filippini, Güttel, & Nosella, 2012). In-depth case studies, including face-to-face structured interviews with top managers—owners/founders and successors in Slovenian micro, small and medium-sized (SME) family business were conducted.

3.2 Data Collection and Analysis

Twelve cases were carefully selected from the data base which has been developing for many years by the authors of the paper. It is estimated that ten cases is generally sufficient (e.g., Eisenhardt, 1989) in order to increase rigor, the basis for generalization and clarity (Yin, 2003). In assembling the cases, we took account of the size class and the family generation. Regarding the size class, we included besides small and medium-sized family firms (from 10 to 249 employees) as well as micro enterprises since we suppose that numerous micro family firms (from zero to nine employees) face the problem of transferring leadership to the next family generation as well. Regarding the generation, we included in the sample those firms where founder of the firm is employed in a firm or still owns a firm and at least one member of the next generation is involved in a firm. The presence of members of the next family generation (i.e., potential successor) in examined family firms is especially important since we focus our

research on tacit knowledge transfer and creation. Namely, some research results (Bjuggren & Sound, 2001; Royer, Simons, Boyd, & Rafferty, 2008) show that a family member as a successor is especially preferable when family business-specific experiential knowledge is considered highly relevant for gaining and sustaining competitive advantage.

Since we do not dispose with the universal definition of a family enterprise, an important part of our research was to select criteria for defining an enterprise as a family one. For example, Mandl (2008, 2) reported in her study about 90 different definitions across 33 European countries, which mainly require major family influence on ownership and management/strategic control. For the purpose of our research we define a family business as a business where the founder (i.e., owner-manager) considers the business as a family one. Therefore, the first question was (e.g., Sharma et al., 2003), "Do you consider your firm as a family firm?"

The authors conducted personal interviews with a founder and a successor (in the case of more potential successors we conducted the interview with one) since they are both involved in succession process and knowledge creation process. On one hand, they are very well qualified to elaborate on it, and on the other hand, there might be significant differences in perceptions between founders and successors (e.g., Zahra & Sharma, 2004). In all cases interviews took place at premises of a company. The interviews took place at various times of the day, during the working days. It is believed the timing and place of the interview did not influence on the readiness and openness to reveal data and information.

All twelve interviewed founders confirmed that their firms are family ones. All examined firms were private ones. The size of examined firms was measured by the average number of employees in a business year and the structure of the sample was the following: five (42%) were micro firms with up to 9 employees, five (42%) were small firms with 10 to 49 employees and two (16%) were middle sized firms with 50 to 249 employees. Twelve extensive case studies were built and data were stored in electronic database. Data analysis was undertaken using a combination of deductive and inductive methods, being suitable for this type of research (e.g., Chirico, 2008).

4. Results

This section provides a description of twelve cases. Summarized data are presented in Table 2 and discussed in continuation of the text.

Table 2. Knowledge creation/transfer during family business succession

Case No.*	Education	Work experience	Knowledge creation/transer	Succession planning
1.	Vocational degree	45 years	Internal training, individual training Mentoring Involving into meetings with partners	Written plans for succession
(Founder)				
(Successor)	High degree – 3 years of college (graduate economist)	8 years	Internal training, individual training Mentoring Problem solving Observing parent at work Involving into meetings with partners.	
2.	Vocational degree	20 years	Internal training	Knowledge about plans (but not written ones)
(Founder)	High school, student	No work experience	Internal training Mentoring	
(Successor)				
3.	Master degree in economics	27 years	Successors had to find their way in the business	Knowledge about plans (but not written ones)
(Founder)				
(Successor)	High – university degree (graduate engineer of construction)	5 years	Internal training Mentoring Involving into meetings with partners	
4.	High – university degree (graduate economist)	40 years	Constant involvement of successors since their childhood in the business Learning by problem solving Involving into meetings with partners	Written plans for succession
(Founder)				

(Successor)	High school, student	14 years	Mentoring by external expert for transport and logistics – 6 years Involving into meetings with partners, formal and informal	
5. (Founder)	Vocational degree	40 years	Mentoring Involving into meetings with partners since employment in the firm	Written plans for succession
(Successor)	Master degree in economics	5 years	Observing parent at work Involving into meetings with partners	
6. (Founder)	Vocational degree	30 years	Internal training Joint problem solving – learning by doing	Written plans for succession
(Successor)	High degree - 3 years of college (graduate economist)	2 years	Involving into meetings with partners - suppliers	
7. (Founder)	Higher degree – economist	36 years	Training programmes for family and non-family members Involving into meetings with partners	Knowledge about plans (but not written ones)
(Successor)	Higher degree – commercialist	14 years	Involving into meetings with partners Training programmes.	
8. (Founder)	Vocational degree	41 years	Mentoring	Written plans for succession
(Successor)	High degree - 3 years of college (graduate economist)	5 years	Mentoring Internal training Involving into meetings with partners in the recent 3 years	
9. (Founder)	High – university degree (graduate mechanical engineer)	35 years	Observing parent at work Involving into meetings with partners	Knowledge about plans (but not written)
(Successor)	High – university degree (graduate economist)	4 years	Observing parent at work Involving into meetings with partners and business negotiations	
10. (Founder)	High school	34 years	Mentoring	Knowledge about plans (but not written)
(Successor)	High degree - 3 years of college (graduate economist)	8 years	Mentoring Involving into meetings with partners	
11. (Founder)	High – university degree (graduate economist)	25 years	Mentoring Internal training	Knowledge about plans (but not written)
(Successor)	High degree - 3 years of college (graduate economist)	1 year	Mentoring Involving into meetings with partners	
12. (Founder)	Vocational degree	35 years	Mentoring Internal training	Knowledge about plans (but not written)
(Successor)	High degree - 3 years of college (graduate economist)	6 years	Mentoring Internal training	

* The interviewee(s) in each case; in the case of more successors, the interview was conducted with one of them.

4.1 Succession Planning and Choice of a Successor

We focus our research on knowledge creation during the succession process. Since succession planning is expected to improve the probability of the success of the succession process (e.g., Gersick, Davis, McCollom Hampton, & Lansberg, 1997; Motwani, Levenburg, Schwarz, & Blankson, 2006; Morris et al., 1997; Sharma et al., 2003;) and there is significant overlap between activities considered by researchers to be components of the succession process and

those activities considered to be parts of succession planning (Sharma et al., 2003), we explore the presence of succession planning as well. We understand the succession planning as deliberate and formal process that facilitates the transfer of ownership and management control (Sharma et al., 2003) and includes the choice and preparation of a successor.

Succession planning is present to certain degree in all examined enterprises (see Tabel 2). Less than half of them dispose with written plans, in the rest of enterprises the succession solutions are communicated to successors but not written down. This could be problematic since other stakeholders (i.e., internal and external) are not informed on how a firm is going to function after the retirement of the founder. Since in more than half of cases there are more than two successors it is even more important to clearly write down a succession plan to avoid conflicts regarding family control over the business. The findings also confirm some research results showing that successions are not planned in due time (Bjuggren & Sund, 2001; Sharma et al., 2003) and that the first generation family enterprises did less succession planning than the second and third generation family enterprises (Sonfield & Lussier, 2004). Studies within the EU Member States also indicate that the majority of SMEs owners-managers did not take the necessary actions to plan and carry out the transfer of ownership and leadership control (Transfer of SMEs, 2002). Our findings could also be explained with the cognitions of many researches (e.g., Pfhol & Kellerwessel, 1997) who describe the more pragmatic, personal and informal way of managing of SMEs, especially of micro and small enterprises. These enterprises are characterized by the lack of time for planning long-term strategic objectives due to the crucial role owners-managers play in the day-to-day running of their businesses (e.g., Pérez & Duréndez, 2007). Namely, we found the absence of written succession plans in the case of all five micro enterprises and the presence of written succession plans in the case of both medium-sized family enterprises.

In more than half of examined enterprises there are more than two successors. In all cases these successors are sons or daughters of the founder. In five cases there is only one successor, where in three cases the successor is a natural choice of the founder as it is the only son or only daughter. In one case the successor chosen is the son in law. The average period of successor's involvement in a family business is 5.5 years, which corresponds to some experts' opinion (Transfer of SMEs, 2002) that the necessary preparation period may take from five to ten years. When the preparation and planning includes the qualification of a potential successor, even longer periods may be needed.

4.2 Knowledge Creation during Family Business Succession

Knowledge is created and expanded through social interactions between tacit and explicit knowledge and individual and collective knowledge. In a family business, successors need to acquire knowledge from the previous generation and also add new knowledge (e.g., Cabrera-Suárez et al., 2001; Chirico, 2008; Kellermanns & Eddelston, 2004). In the process of transferring and creating tacit knowledge the absorptive capacity of the recipient is of high importance (Szulanski, 1996). Such capacity is to large extent a function of the preexisting knowledge – in the case of family business's successor such absorptive capacity depends on previous academic and professional education as well as training within and outside a family business. Therefore, we explore the educational background of founders and successors. The case studies reveal that the educational background of successors is on average higher than the one of founders (see Tabel 2). Most of the interviewed founders believe that academic knowledge is important for family business's competitiveness as it opens horizons, but they also believe that this knowledge should be combined with work experiences, joy for work and feeling for trade. All interviewed successors found formal education to be important.

In relation to successor's absorptive capacity we find interesting the cognitions on the importance of early exposure of children to the business. Early exposure of children to the family business is in opinion of many authors (e.g., Cabrera-Suárez et al., 2001; Gersick et al., 1997) a valuable experience for a successor and could represent an important part of acquiring founder's tacit knowledge. According to Bertrand and Schoar (2006) the transmission of knowledge about the business is easier between a founder and his children than between founder and some outside manager due to child's exposure to the business even before becoming formally involved in the business. However, surprisingly, only in one of our cases the involvement of a successor in the business from the early childhood has been recognized as a way of transferring knowledge, especially tacit one from the founder (Tabel 2).

Founders and successors are involved in different knowledge creation activities (Tabel 2), often combining them. Founders mostly found as appropriate mentoring (6 cases), internal training (5 cases) and involving successors in the meetings with partners (5 cases). Most of successors found that they have been mostly mentored (8 cases) and involved into different meetings with business partners (10 cases). Internal and individual training has been present in the opinion of five successors. The data show that differences exist between founders' and successors' perceptions

and experiences with knowledge creation/transfer during the succession. In the continuation we analyse and discuss possible reasons for such results.

The results on mentoring were compared with some partial results on the use of mentoring in family businesses. Mentoring and supervising relationships is found by family businesses leaders to be a suitable way of widening successor's knowledge because they believe that the close interactions between them and their successors is a superior form of experience supporting development of tacit knowledge by successors (Boyd, Upton, & Wircenski, 1999; Cabrera-Suárez et al., 2001; Chirico, 2008). According to Swap et al. (2001) mentoring is an effective way of transferring critical skills (i.e., technical and managerial), knowledge on managerial systems (especially of informal managerial systems), norms of behavior and firm's values. It fits the description of socialization and internalization thus being an ideal way of leveraging knowledge of firms, especially of tacit one (Swap et al., 2001). Some authors argue that parents are not suitable mentors because they have difficulties with giving honest feedback to their children (e.g., Gersick et al., 1997). Therefore, inclusion of nonfamily mentors (e.g., a trusted nonfamily senior manager), who can provide the potential successors with knowledge on how to run the business, is proposed (e.g., Ward, 1987). In our research in only one case (the case no.4) the mentoring was done by the external expert indicating the preference of family business leader's mentoring. Boyd et al. (1999) found strong preference of informal mentoring by a family member in family businesses. This kind of mentoring has numerous strengths (e.g., flexibility, unforced, unstructured, opening up communication and establishing caring relationship). However, the weakness should also be detected such as the absence of objectives or an agenda, the presence of emotion and lack of feedback or review. Therefore, Boyd et al. (1999) recommend including positive sides of formal mentoring like the goal setting and review and the recognition of milestone events. Strong preference of informal mentoring can be traced also in our research since in many cases (cases no. 2, 3, 4, 5) the founder's and the successor's point of view regarding mentoring is different indicating the absence of formal mentoring goals and plan.

The results on internal and individual training are in accordance of some suggestions on the use of internal training (e.g., Chirico, 2008) as a suitable way of transferring founder's tacit knowledge. Namely, on-the-job training and training programs can help successors to understand organizations and themselves (e.g., Becerra-Fernandez & Sabherwal, 2001; Nonaka et al., 2000). Practical training courses within the family business enable individuals to acquire, share and transfer knowledge across generations (Chirico, 2008). In three cases (case no. 1, 2, 12) both founders and successors assessed the internal/individual training to be an important component of successor's development. In two cases (case no. 3 and 8) only successors found to be involved in internal training and in two cases (case no. 6 and 11) only founders believed that successors have been involved in a sort of internal/individual training. These four cases suggest rather informal way of internal/individual successors' training.

Involving in the meetings with business partners is not only excellent way of acquiring founders tacit knowledge but as well as customers tacit knowledge thus contributing to the knowledge base not only of successors but as well as of a company (e.g., Nonaka et al., 1994). In such interactions, the tacit knowledge of customers and suppliers can be acquired (i.e. socialization conversion mode) and translated (i.e., externalization conversion mode) in readily understandable form (e.g., Nonaka et al., 1994; Becerra-Fernandez & Sabherwal, 2001). Especially important such knowledge can be incorporated into new concepts, technologies, and products or systems (Nonaka et al., 2006). However, obviously many founders (7 of them) do not experience this as a possible way of creating knowledge. Contrary, it is highly valued by successors (10 cases).

Learning by doing and observing parents at work are used less frequently. Observing parents at work is probably at this stage of successor's involvement in a company less appropriate since the majority of successors in the observed firms are either employed or actively involved in the firm as students. Learning by doing is experienced by a successor in three cases and only by one founder (case no. 6); in this case the successor did not report on being involved in learning by doing process. In Nonaka's (1994, 20) opinion through a process of learning by doing the "experimentation" can trigger internalization mode. An offspring have the opportunity to learn directly from the preceding generation in a "learning-by-doing process" how to run the family firm, and "..., specially, all the 'tricks of trade' related to the business" (Chirico, 2008, p. 441). For example, Mazzola et al. (2008) report on the importance of involving successors in strategic planning process which enables them to learn how to make a strategy in a sort of "learning by doing process". The main advantage of such process can also be a "progressive transfer of tacit knowledge" (Cabrera-Suárez et al., 2001), not only at the individual level (especially of successor), but as well as at the firm's level (experiential and routine knowledge). However, none of interviewed considered strategic planning process as a part of knowledge creation process during the succession.

We did not find any case that would report on using apprenticeship which is often referred to in family business literature. Since none of our examined enterprises is active in traditional industry, the findings can be explained by Chirico's (2008) argument that internal apprenticeship should be seen as excellent training only in traditional industries which do not function in environments characterized by rapid changing conditions.

5. Discussion and Conclusion

The research conducted should be seen as preliminary in nature. The analysis of twelve cases indicates that family businesses' founders are aware of the importance of involving successors in different knowledge creation activities which purpose is the transmission of founder's tacit knowledge as well as creation of new knowledge. The processes of socialization and internalization (e.g., mentoring, internal/individual training, involving in the meetings with business partners) are exposed by interviewed founders and successor. These processes are of importance since inputs and outputs are experiential and routine knowledge (i.e., skills and know-how of individuals, emotional knowledge, energetic knowledge, rhythmic knowledge, know-how in daily operations, working practices, organizational routines and organizational culture) being of crucial importance for building and sustaining firm's competitive advantage. However, our results also indicate that in many cases successors report slightly different picture than founders regarding socialization and internalization as present modes of knowledge conversion within examined enterprises. These findings suggest that many knowledge creation processes and activities during the succession are going on informally and spontaneously or even blind. Such informal processes have clearly certain benefits (e.g., flexibility and establishing caring relationship), but on the other hand the lack of clear objectives and agenda can lead to lower level of productivity (e.g., Boyd et al., 1999). This confirms the need of preparing written plan of succession where the major part should cover successor's training and his/hers involvement in the organizational knowledge creation process within a family business. Our research results also show rather "traditional view" on ways of knowledge transfer and creation. The prevailing knowledge creation and transfer activities are mentoring, internal training and involving successors in the meetings with business partners. However, some recent research points to the importance successors' involvement in strategic planning process (Mazzola et al., 2008) and management accounting practice (Giovannoni, Maraghini, & Riccaboni, 2011) as an important part of successors' development within family businesses during succession; also other research findings suggest different activities contributing to organizational knowledge creation (e.g., summarized in Tabel 1). None of examined enterprises reported on such knowledge creation activities. These results however do not necessarily mean that successors are not involved in such processes. It could just mean that for example strategic planning and management accounting practice are not understood and viewed as an important part of knowledge transfer and organizational knowledge creation during family business succession. Lack of awareness of the importance of successors' involvement in broad range of knowledge creation activities could have important implication for practice on how to improve organizational knowledge creation and competitiveness during and after the transfer of leadership in family businesses. This is of special importance for Slovenia and other post-socialist countries where family business succession issues are rarely the subject of a topic of policy discussions and only occasionally a topic of public discussions (e.g., Duh, 2008; Duh, 2012).

Our twelve case studies also suggest that founder's tacit knowledge transfer and new tacit knowledge creation during succession should be placed in broader context of organizational knowledge creation. Namely, in Nonaka's (1991) opinion socialization on its own is a rather limited form of knowledge creation, since neither the knowledge of apprentice, neither of the master ever becomes explicit and cannot be easily leveraged by the organization as a whole. While each of four modes of knowledge conversion can create new knowledge independently, the organizational knowledge creation should center on the building of both tacit and explicit knowledge, and on the interchange between these two aspects of knowledge through internalization and externalization. Therefore, Nonaka (1994) expose the idea of "knowledge spiral", starting at the individual level and moving up to the collective level and then to organizational level. While the tacit knowledge held by a founder may lie at the heart of the knowledge creation process during the succession, realizing the practical benefits of that knowledge should center on its transfer to a successor and its externalization and amplification through dynamic interactions between all four modes of knowledge conversions in spiral of knowledge. In order to raise the total quality of successor's knowledge, the enhancement of tacit knowledge has to be subjected to a continual interplay with the relevant aspects of explicit knowledge. In this way, a successor can build his/hers unique perspective of the world, which can be articulated and amplified through social interactions on family business level (or even on the interorganizational level) thus adding new knowledge and contributing to building family business's competitive advantage.

Although the succession is one of the most studied and researched issues in the field of family business research (e.g., Giambatista, Rowe, & Riaz, 2005; Sharma, 2004) and occupies approximately one third of the family business

literature, there is no general theory on family business succession (Sharma et al., 2003). We believe that our research findings contribute to broadening our understanding of family business succession from the organizational knowledge creation perspective as well as it opens some new research directions.

Due to the importance attached to the early exposure of children to a family business, we believe that this process of “early socialization” should be addressed from organizational knowledge creation perspective in future research. We believe that, when properly managed, the early exposure of a child to a business can importantly contribute to experiential knowledge assets, especially to emotional knowledge and energetic knowledge. Namely, for successful realization of a succession within a family circle the successor’s commitment to a business is of crucial importance (e.g., Chrisman, Chua, & Sharma, 1998) and is rated very high among skill requirements of a successor (Motwani et al., 2006). Such commitment is largely based on psychological ownership and family members’ possessive emotional feelings and attachment over the family business with strong sense of identity, belonging, responsibility and control over it (e.g., Zahra et al., 2007). Therefore, the future research should address the ways of managing the early exposure of children to a business as a part of organizational knowledge creation process.

None of the examined enterprises reported on stories/storytelling as an important socialization and internalization mode of knowledge conversion. The research review on family business literature reveals the lack of such research. According to Swap et al. (2001) stories are particular powerful for transferring knowledge rich in tacit dimensions and can be used to communicate managerial systems, norms and values through the narrative and often implied moral. Since stories are more memorable as well as more weights are given to them, they are more likely to guide behavior. Especially the moral side of stories guiding the behavior of potential leaders is of importance in today’s environment full of unethical business decision-making and functioning.

We believe that future research should also address other knowledge creation activities (presented in tabel nr. 1) and their possible contribution to building and sustaining competitive advantage during family business succession. The future research should address the concept of “ba” being defined as as “... a shared context in which knowledge is shared, created and utilized” (Nonaka et al., 2000, p. 14). Generation and regeneration of “ba” is crucial in organizational knowledge creation since it provides the energy, quality and place to perform individual conversions and moving along the knowledge spiral. The knowledge creation enabling conditions are especially critical in family businesses during the succession due to the emotional nature of the issue and complexity of family relationships influencing the whole process. Many critical relationships, such as that between a father and a son escalate during the period of transition (e.g., Kets de Vries, 1993; Cabrera-Suárez et al., 2001) influencing the family business’s future and competitiveness.

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