Dissertation

Information rules the Game – Information Exchange as a Success Factor in internal Succession in Family Businesses

zur Erlangung des Doktorgrades (Dr. rer. pol.)
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vorgelegt von
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Zusammenfassung (auf Deutsch)

Unternehmensnachfolge kann ein kritischer Moment im Lebenszyklus eines jeden Familienunternehmens werden. Dies kann unterschiedliche Gründe haben, zum Beispiel die ungenügende Übergabefähigkeit des Unternehmens, unzureichende Planung oder den Mangel eines geeigneten oder gewillten Nachfolgers. Um dieser Situation entgegenzuwirken, ergeben sich im Vorfeld der Nachfolge Herausforderungen, wie die Notwendigkeit einer strukturierten Planung des Nachfolgeprozesses und die Auswahl und Integration eines passenden Nachfolgers. Diese Herausforderungen können, wenn sie von Familienunternehmen erfolgreich bewältigt werden, zu einer Erneuerung des Familienunternehmens führen. Sie können jedoch auch zu einer Krise werden, wenn Schritte übersprungen oder nicht beachtet werden. Informationen spielen hier eine entscheidende Rolle. So hängt der gelungene Austausch von Informationen zum Beispiel davon ab, ob die grundsätzliche Bereitschaft für einen offenen Informationsaustausch gegeben ist, ob genügend Zeit und Ressourcen dafür verfügbar sind und das Bewusstsein vorhanden ist, was (unternehmens-)relevante Informationen für einen gelungenen Nachfolgeprozess sind. Diese Informationen sind jedoch die Basis für zukünftige Entscheidungen von Übernehmern und damit von besonderer Relevanz.

Verschiedene Modelle, die als Basis für einen erfolgreichen Unternehmens-nachfolgeprozess herangezogen werden können, wurden in der Vergangenheit erstellt. Diese beinhalten möglichst umfassend Aspekte, die es in der Nachfolgesituation zu beachten gilt, wie zum Beispiel die Sensibilisierung für die Nachfolge allgemein, die Auswahl eines geeigneten Nachfolgers, finanzielle Aspekte, aber auch Kontextfaktoren wie das Familien- oder Unternehmensumfeld.

Das übergeordnete Ziel dieser Dissertation ist es, in diesem Zusammenhang ein tiefer gehendes Verständnis zu generieren, welche Rolle Informationen und vor allem der Informationsaustausch im Unternehmensnachfolgeprozess spielen. Der

Fokus der Arbeit liegt dabei auf der Individualebene, folglich auf dem Übergeber und Übernehmer. Dabei wird der Unternehmensnachfolgeprozess aus der Perspektive der Prinzipal-Agenten-Theorie betrachtet. Es wird davon ausgegangen, dass der Übergeber als Prinzipal und der (potenzielle) Übernehmer als Agent agieren und beide Informationen austauschen. In dieser Prinzipal-Agenten-Situation treten Informationsasymmetrien auf, welche die erste empirische Studie genauer in den Blick nimmt. Unter Zuhilfenahme der Signaling-Theorie und der Sozialkapitaltheorie werden in den darauffolgenden Studien zwei weitere Bereiche untersucht, in denen Informationsaustausch eine Rolle spielt: Zum einen die Auswahl des Unternehmensnachfolgers und zum anderen der Transfer von Netzwerkkontakten.

Die empirischen Ergebnisse dieser Dissertation zeigen auf, dass in Familienunternehmen in der Unternehmensnachfolgesituation Informationsasymmetrien vorhanden sind, die den Nachfolgeprozess gefährden können. Diese verändern sich jedoch über die Zeit, was darauf hinweist, dass Familienunternehmen Prozesse entwickeln, die einen Informationsaustausch fördern und Herausforderungen, die aus Informationsasymmetrien entstehen können, selbstständig abmildern.

Die Signaling-Theorie wird in einer zweiten empirischen Studie als ein Erklärungsansatz für den Abbau von Informationsasymmetrien herangezogen. Hier zeigt sich, dass potenzielle Nachfolgekandidaten in Familienunternehmen durch die Wahl einer passenden Ausbildung oder durch ihr Engagement im Familienunternehmen Signale senden und diese vom Übergeber auch empfangen werden. Darüber hinaus geben die Ergebnisse Hinweise darauf, dass Familienunternehmen eigene Prozesse schaffen, um Nachfolger zu identifizieren, auszubilden und zu integrieren – sie folglich erfolgreich Informationsasymmetrien reduzieren. Familienunternehmen sind demnach professioneller bei der Prüfung und Auswahl geeigneter Übernahmekandidaten, als dies häufig in der Literatur angenommen wird.

Auf den Eintritt des Nachfolgers in das und den Austritt des Übergebers aus dem Familienunternehmen konzentriert sich die Analyse der dritten empirischen Studie. Der Transfer von Netzwerkkontakten, die Planung und Umsetzung sowie die Rollen der unterschiedlichen Akteure werden in dieser Studie detailliert betrachtet. Die Studie untermauert den Befund, dass bereits vorhandene Prozesse in Familienunternehmen die Basis für den nachhaltigen Übergabeerfolg schaffen.

Die Zusammenführung der unterschiedlichen Studien, mit Fokus auf den Untersuchungsgegenstand Information bzw. Informationsaustausch, erlaubt eine Verortung der Ergebnisse in den Forschungsfeldern Familienunternehmen und Unternehmensnachfolge aus der theoretischen Perspektive der Prinzipal-Agenten-Theorie. Damit zeigt diese Dissertation auf, dass auch in Familienunternehmen opportunistische Akteure agieren, jedoch eigenständig Prozesse entwickelt werden, mit denen Informationsasymmetrien abgemildert werden können. Diese Prozesse werden sowohl im Bereich der Nachfolgerauswahl als auch im Bereich des Transfers von Netzwerkkontakten schrittweise durchlaufen. Die Langfristigkeit dieser Prozesse eröffnet Familienunternehmen in der internen Nachfolge Möglichkeiten, sich auf zukünftige Entwicklungen vorzubereiten.

Die abschließende Diskussion sowie die abgeleiteten Implikationen für Theorie und Praxis betonen, dass eine stärkere Sensibilisierung für den Umgang mit Informationsasymmetrien von Nöten ist. Ein strukturierter Prozess des Informationsaustauschs auf unterschiedlichen Ebenen (z.B. Nachfolgerauswahl, Transfer von Eigentum, Transfer von Netzwerkkontakten) trägt maßgeblich zum Gelingen der Unternehmensnachfolge bei. Im Ergebnis verdeutlicht die vorliegende Arbeit nachdrücklich, dass die Unternehmensnachfolge als ein langfristiger, strategisch durchdachter Prozess gestaltet werden sollte, wenn diese dem Familienunternehmen als Chance zur Erneuerung dienen soll.

Abstract (in English)

Succession is a crucial moment in the life cycle of a family business. An effective succession requires taking a step-by-step approach, including structured planning, selection, and integration of the successor. Family firms behave differently than non-family firms due to risk aversity and the mixture of family and business logics. The overall purpose of this dissertation is to gain a deeper understanding of the role of information exchange in business succession. The succession process is examined from different angles, focusing on the broad individual perspectives of the predecessor and the successor.

In family firms, potential successors enter the pool of candidates at birth. Various observable criteria are important when making the final selection. Despite the long time frame of the succession process, information asymmetries can arise because it is not always fully clear if the chosen candidate is willing to succeed the incumbent. This variable also influences the choice of selection criteria, which differ in nature. For example, existing social capital, which can influence the sustainability of succession, can be a selection criterion. An unstructured social capital transfer can, for instance, undermine the sustainability of success due to the ineffective usage of long-term network contacts. This situation is an example of how information asymmetries affect the overall business succession process and what types of information are exchanged during the process.

The empirical studies in this dissertation shed light on the role of information in the succession process and the behavior of family business members who deal with the information. The empirical results of the first study show that information asymmetries in family firms change over time as firms develop their own processes to promote information exchange and handle the challenges resulting from information asymmetries. In the second empirical study, signaling is offered as an explanation. Successors send signals, for example, through choosing an education which fits to the family business. This behavior is

evaluated as a signal. In family firms, signaling takes place to identify the candidate who best fits the firm. This research also shows that family firms develop their own processes to identify potential candidates, organize educational programs and integrate candidates in a step-by-step approach to ensure sustainable success. These two empirical studies highlight the long-term orientation of family firms, the opportunity for potential candidates to implement new ideas, and the importance of knowledge about successors' attributes, particularly their risk level and innovativeness. These studies show that family firms which develop their own processes are more professional than previously thought. They identify and screen candidates according to business needs and optimize the process of information exchange. The third empirical study focuses specifically on information about network contacts. The transfer of social capital during the business succession process is analyzed from the perspective of social capital theory. This study shows that network contacts are transferred during the succession process, and the successor adds personal social capital to the network, including various opportunities to use the succession situation to renew the existing network.

The understanding of business succession as a time for renewal and of succession as an entrepreneurial process localizes this dissertation in the fields of family business and business succession in family firms from a principal agent perspective. Additionally, signaling theory and social capital theory are used to analyze how family businesses handle the principal agent situation between the incumbent and successor(s). Thus, this dissertation improves understanding of business succession from the principal agent perspective and synthesizes research and practice to emphasize the importance of every step of succession. A discussion of the findings and the implications for research and practice conclude this dissertation. This research raises family business owners' awareness of information asymmetries and blind spots among family members. Information exchange and clearly structured transfers of knowledge and network contacts offer successors scope for decision-making and development, which help family firms making business succession a time for renewal instead of a time of struggle.

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Sabrina Schell

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List of Abbreviations

CEO	Chief Executive Officer
ed./eds.	Editor/s
e.g.	exemplum gratia: for example
et al.,	et alii: and others
EU	European Union
F-PEC	Family Influence on Power, Experience and Culture
p.	Page
Pre/PRE	Predecessor
SEW	Socioemotional Wealth
SME	Small and medium-sized enterprises
Suc/SUC	Successor
U.S.	United States

1 Introduction

"My idea of good company, Mr. Eliot, is the company of clever, well-informed people who have a great deal of conversation; that is what I call good company."

Jane Austen, Persuasion

The first word of a young child is usually "Mom" or "Dad".[1] Indeed, family members are the people we talk to most often, and while growing up we have a great deal of conversation. Accordingly, it can be presumed that firms in which family members are responsible for the daily business and strategic decisions have a good chance of being judged as a *good company*. In general, these firms in which family members have shares and strategic influence are called family businesses. Family businesses are the backbone of economies worldwide (Naldi, Cennamo, Corbetta, & Gómez-Mejía, 2013). In fact, the German Mittelstand is based on family businesses and serves as a role model for other economies. Some of these family businesses are market leaders in their niches and have been called 'Hidden Champions' because they drive the economy (Simon, 2009). The inherent long-term orientation and the desire to preserve socioemotional wealth encourage family firms to introduce processes that enable them to survive in the market (Jaskiewicz, Combs, & Rau, 2015).

A fundamental issue for family business is succession; all family businesses have to handle this challenge from time to time. Business succession demands attention and resources (Cabrera-Suárez, Saa-Perez, & Garcia-Almeida, 2001). Even at the present day, there remains a gap in knowledge as to why family firms fail before, during, or after business succession (Mussolino & Calabró, 2014). Many investigations on succession have treated it largely as a problem rather than a

[1] To simplify matters, the use of the male gender in these regulations applies to both males and females.

chance for a renewal (Handler, 1994; Le Breton-Miller, Miller, & Steier, 2004). These findings underline the widespread understanding that succession hinders the development of family firms (Handler, 1994; Poza & Daughtery, 2014; Ward, 1987). Following this, there is a need for research on how family firms can handle the succession process, to preserve the family and the firm.

A *good company* needs well-informed people. Accordingly, information and the exchange of information can be a success factor for family businesses (Handler, 1994; Le Breton-Miller et al., 2004). Therefore, conversation is one important tool for exchanging information between individuals and the fundament for information exchange. Information allows planning in a strategic way. It offers the possibility of estimating boundaries and enables actors to adapt their own behavior. In family business research, succession models exist. These models underline the importance of long-term planning for succession (Handler, 1994), recommend a nurturing and developmental phase for potential successors (Le Breton-Miller et al., 2004), and illustrate that in family business succession, there is a time between the entry of the successor and the exit of the predecessor when both are working together (Nordqvist, Wennberg, Baú & Hellerstedt, 2013). In internal succession, it seems clear that family members generally know everything about each other, trust in each other, and following this, a smooth succession takes place. However, anybody who thinks about stories of their own youth – things parents should not know or things we do not want to know about our parents – realizes that there are also blind spots in close relationships. Moreover, in every parent-child relationship, conflicts exist. There are topics where parents and children are not of one mind. Besides personal experience, there is also abundant research about conflicts in family firms, which can result from unspoken information (Eddlestone & Kellermanns, 2007; Kellermanns & Eddlestone, 2004; Schulze, Lubatkin, & Dino, 2003; Schulze, Lubatkin, Dino, & Buchholz, 2001).

Research based on agency theory indicates that conflicts and asymmetric information can hamper processes in family firms, for example, when parents are overly generous to their children, these children may take advantage of this generosity by shirking or free-riding (Chrisman, Chua, & Litz, 2004; Madison, Holt, Kellermanns, & Ranft, 2016; Schulze et al., 2001). Moreover, the succession process can be evaluated as a personnel selection process. There is somebody who owns the family firm and searches for the candidate with the best fit to overtake the firm. In most cases of family firms, management succession is the first step and ownership succession finalizes the whole process (Nordqvist et al., 2013). As a result, in the first step, a manager is sought with the potential to also become the final successor. There is a time during succession in which the family – respectively, the main decision-maker of the family firm – is busy with the selection of the candidate before the final decision is taken. This supports the argument of an agency relationship during this process in which the predecessor is the principal and the successor is the agent. Following this, there could be interests that are diametrically opposed, and it is not clear if these interests are totally revealed. In addition, in family businesses, there is a pool of candidates, and the person who fits best has to be identified and selected. Some studies offer initial hints about selection criteria (Chrisman, Chua, & Sharma, 1998; Schlepphorst & Moog, 2014), but there is a gap in our knowledge of whether both parties are aware of these criteria and how they negotiate the fulfillment of expectations. Summarizing these explanations, it is not clear if there are well-informed people who have a great deal of conversation to facilitate a successful succession.

All these processes happen before the final decision about who will succeed takes place. There is a lot of information that has to be exchanged, and there is an assumption that both parties are not totally aware of this. During succession, when both parties are working together, concrete information has to be exchanged through continuous communication. For example, passwords for the safe or personnel computers, financial facts, periodical appointments with customers and suppliers, and knowledge about important network contacts in general. In the past, social capital – the knowledge about network contacts and the ability to handle these contacts – was identified as a success factor of family firms (Arregle, Hitt, Sirmon, & Very, 2007; Classen, van Gils, Bammens, & Caree, 2012; Gedajlovic, Honig, Moore, Payne, & Wright, 2013; Zahra, 2010). Networks have to be built so that information can flow. This is possible through a combination of strong and weak ties (Granovetter, 1983). Entrepreneurs often function as brokers between two networks (Burt, 1999, 2005). Through this function, they have advantages because they are able to use information from more than one network and share it in the different networks they are part of (Burt, 2005). This also allows them to gain a competitive advantage they can use for their business development. Family firms in the first generation are founded by entrepreneurs, but also the next generations have an entrepreneurial orientation and should be able to work as brokers as well (Zellweger, Nason, & Nordqvist, 2012). To enable the successor to use this entrepreneurial orientation and his own social capital, a structured transfer of network contacts is needed. There is a gap in current knowledge about whether the predecessor is aware of the need to exchange information about important network contacts or not, and also whether successors are able to integrate themselves in the existent network (Nordstrom & Steier, 2015). Furthermore, it is not clear if the network contacts are preserved, dropped, or expanded. Following this, information about network contacts is one example of information that has to be exchanged when the predecessor and successor are working together, and also after the final succession decision.

This dissertation is based on the hypothesis that there is a need to investigate and ideally determine the role of information exchange during internal business succession. The research gaps mentioned in the introduction should be overcome through empirical investigation. This overall research goal is analyzed from the general to the specific.

1.1 Motivation and Research Goal of this Dissertation

Although business succession is recognized as an important field for research, there remains a major gap in research on factors influencing the outcome and process of succession. Recent literature reviews underline the need for research to gain deeper insights into the phenomenon of transgenerational success of family firms (Baù, Hellerstedt, Norqvist, & Wennberg, 2014). Unfortunately, the current state of knowledge does not explain why there are two such strikingly distinct outcomes. On the one hand, very successful family firms are making major contributions to the strength of economies worldwide. The German Mittelstand is a particularly common example of family firms that contributes to a sustainable economy (Berghoff, 2006; Block & Spiegel, 2013). On the other hand, there are findings about the negative effects of business succession on family firms; it is even seen as responsible for the disappearance of lots of individual family firms (Handler, 1994).

Business succession is more a process than a specific point in time (Handler, 1994), so family firms need to focus on this process over a (long or short) period (Cabrera-Suárez et al., 2001). The identification, selection, and integration of a successor demands attention and resources (Cabrera-Suárez et al., 2001; Le Breton-Miller et al., 2004). Family businesses have to handle both family and business matters in a strategic and practical way (Jaskiewicz, Heinrichs, Rau, & Reay, 2015). As a result, both organizational and individual factors play important roles. Most previous studies attempting to explain succession focused on limited planning (Sharma, 2004), increased goal diversity between participating generations (Kotlar & De Massis, 2013), conflicts (Eddleston, Otondo, & Kellermanns, 2008), and limited objectivity in the selection of successors (Chrisman et al., 1998; Salvato, Minichilli, & Piccarreta, 2012). However, different layers of analysis, the distinction between management and ownership succession, and a heterogeneous understanding of family firms led to widely divergent results. To gain a deeper understanding, this dissertation follows this line of research to clarify how information exchange influences the family business succession process and to identify one crucial success factor, the moderating effect and its outcomes.

To reach the overall aim of investigating the awareness of and handling of information exchange during succession, this dissertation focuses on the individual-level behavior from an agency perspective.

To respond to the overall research question, the following secondary goals are addressed:

1. Do information asymmetries exist during family internal business succession and which types can be identified? In addition, the analysis delves into how and when information asymmetries occur during the succession process.
2. A structured selection process in family firms is needed when information asymmetries exist in this context. What kind of mechanisms do family firms use to overcome information asymmetries concerning the selection of internal candidates?
3. How does information exchange take place in a concrete field of information? Network contacts and the transfer of these are analyzed to understand how family firms behave.

In summary, the antecedents of selection, integration, and personal relations need to be identified in order to achieve the major research goal, assuming that information exchange has a major influence on that. Therefore, three qualitative empirical studies have been developed and integrated into this dissertation.

1.2 Structure of the Thesis

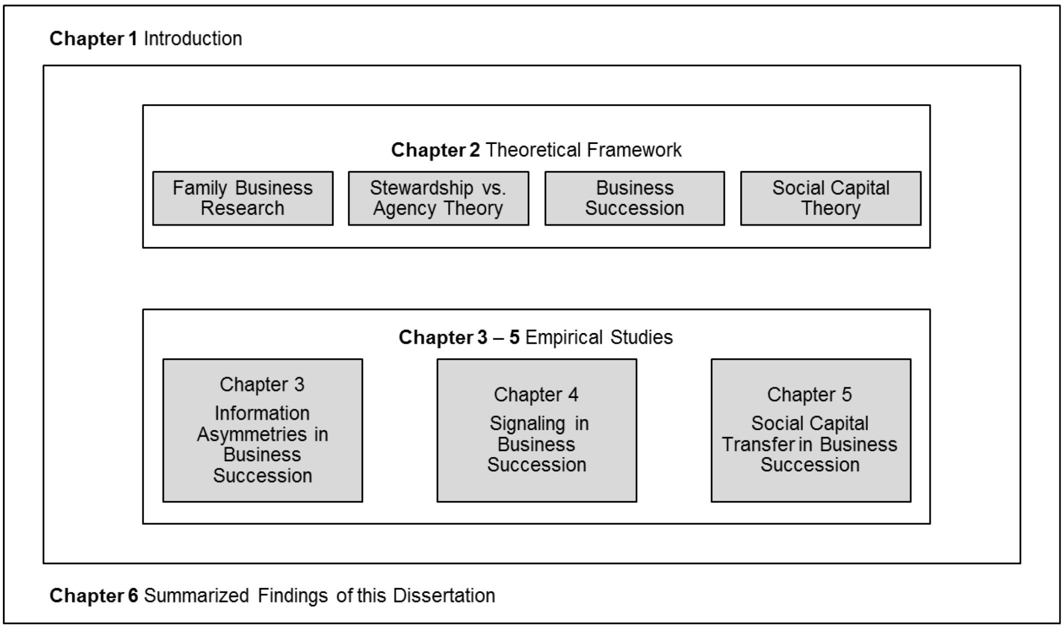
This dissertation can be classified as theory-building research. Every qualitative study included in the dissertation uses a positivistic approach through deduction of propositions and/or conceptual models based on multiple case studies (Eisenhardt, 1989; Neumann, 2000). Each study project within this thesis represents a self-contained project with differing research questions in each case. Table 1 shows the integrated research projects and outlines the contributions of the author to this thesis.

Table 1: Integrated studies

Authorship	Research Gap	Main Theoretical Concepts	Methodology and Sample	Publication Status	Contribution
Paper 1: Information Asymmetries in Family Business					
Schell, Sabrina; Wolff, Sven; Moog, Petra	Information Asymmetries in Family Business	Agency Theory	Qualitative, 14 German Case Studies	Submitted to *Entrepreneurship Theory & Practice* (1st round R&R)	In this paper, I was in charge of collecting vast parts of the data, doing the literature review, analyzing the data, developing the overall model, and writing most parts of the paper.
Paper 2: Successor Selection in Family Firms – A Signaling Game					
Schell, Sabrina; Fröhlich, Julia K.; Moog, Petra; Hack, Andreas	Internal Selection in Family Business	Agency Theory, Signaling Theory, Business Succession	Qualitative, 20 German Case Studies	Presented at: Konferenz der deutschsprachigen Forschungszentren und Institute für Familienunternehmen 2015, März 2015, Friedrichshafen, Germany (Best Paper Award) 75. Annual Meeting of the Academy of Management Conference (AOM) Vancouver, Cananda. Submitted to *Organization Science* (under review)	In this paper, I was in charge of collecting most of the data, doing the literature review, analyzing the data, developing the overall model, and writing large parts of the paper.
Paper 3: Social Capital Transfer in Family Firms					
Schell, Sabrina; Hiepler, Miriam; Moog, Petra	Social Capital Transfer during Business Succession in Family Firms	Business Succession, Social Capital Theory	Qualitative, 4 German Case Studies	Presented at: Babson College Entrepreneurship Research Conference, June 2014, London Ontario, Canada. 4. Konferenz deutschsprachiger Zentren für Familienunternehmen, March 2014, Vienna, Austria. Working Paper	In this paper, I was in charge of collecting most of the data, doing the literature review, analyzing the data, developing the overall model, and writing most parts of the paper.

To accomplish the research goal, this dissertation is organized as follows: the introduction is followed by the research goals and motivation as well as a brief overview of the relevant research on family firms. To illustrate the contribution of the dissertation, in this section, the main theories and constructs of family business research relevant to the thesis are described and briefly discussed. Chapter 3 and chapter 4 examine the selection of competent successors taking agency theory and signaling theory into account to explain these processes in family firms. Multiple case studies are used for theory building. Both research processes follow the suggestions of Eisenhardt (1989) and Yin (1984). In chapter 5, several case studies are used to analyze social capital transfer as an obstacle to business succession. Due to the intergenerational focus, the findings illustrate the results of effective and ineffective succession. Chapter 6 offers a concluding, general discussion of the research and implications for both theory and practice. Figure 1 depicts the structure of this dissertation outline.

Figure 1: Structure of the dissertation



Source: Own diagram.

2 A Brief Introduction of Family Firm Research

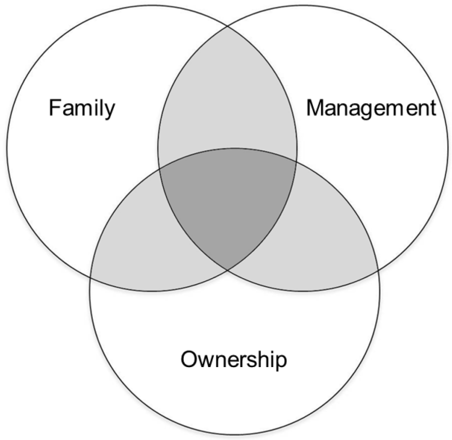
This section gives a brief overview of the state-of-the-art theories that are relevant and predominantly used in this thesis. On the one hand, these theories underline the distinctions between family businesses and non-family businesses. On the other hand, they are useful to understand the research implications of this dissertation. Therefore, a brief introduction to family business research in general is needed. Chapter 2.1 discusses the problem of an overall definition of family business and illustrates some models that attempt to describe family firms and fix the definition for this dissertation. Furthermore, the research streams of stewardship versus agency theory are described to offer an overview of different ways of understanding family business behavior in chapter 2.2. Chapter 2.3 focuses on business succession and offers an overview of common models of the business succession process. Social capital, particularly, family social capital is an interesting and important topic of family firm research. Thus, the social capital theory applied to family businesses is discussed in chapter 2.4. Closing the theoretical debate, a final theoretical model and an overview of current research on business succession from an agency perspective are given in chapter 2.5.

2.1 Family Business as a Field of Interest

Family business research has gained much attention in the last decade (Sharma, 2004). Family businesses are economically important because they comprise a large share of businesses. Family businesses constitute 80–98% of all businesses in the world's free economies and employ 50–75% of the working population around the world (Poza & Daughtery, 2014; Klein, 2008). One great goal for family firm researchers is to define family business in a general way, for example, to attain comparable results and generalizable models (Arregle et al., 2007; Chrisman, Chua, & Steier, 2005; Chua, Chrisman, & Sharma, 1999). It is well known that family businesses differ from non-family businesses especially because of behavioral distinctions (Chua, Chrisman, Steier, & Rau, 2012). Thus, researchers in the last decades have been attempting to explain and define family businesses.

The three-circle model of Tagiuri and Davis (1996) offers a systematic theoretical approach for understanding family business. This model explains the overlap between family, business, and ownership. According to this model, the *family* as a group of individuals connected by bloodlines has its own values, goals, and communication styles. The *business* circle could also be defined as a group of individuals connected by responsibilities for management and strategic decisions in family firms. The *ownership* circle can be defined as a group of individuals holding shares in the company (Distelberg & Sorenson, 2009). Therefore, most studies basically assume that in family business varying sub-systems exist, which have to be integrated into one core-system: the family business system (Habbershon, Williams, & MacMillan, 2003; Tagiuri & Davis, 1996). Due to the overlapping memberships in the sub-systems, family members can have three simultaneous roles, as relatives, as owners, and as managers (Tagiuri & Davis, 1996). Following this argument, relatives can have simultaneous obligations to the family, to the company, and the shareholders. These multiple obligations might cause negative effects like conflicts or positive effects like efficient decision-making to arise (Madison et al., 2016; Tagiuri & Davis, 1996). However, the overlapping parts of the model have attracted the most attention in family firm research. Specifically, the overlaps of the family and the business system as well as the family and management system differentiate family business from non-family business. The ownership system is influenced by the family system due to the dispersion of shares. The family system has an impact on the management system because of family members in the management board. As family members have their own communication style inside the family and their own family values and goals, these specifications have an influence on the other systems as well (Kotlar & De Massis, 2013). This influence can be positive, if the communication takes place in a structured, continuous, and cooperative way and supports the familiness effect.

Figure 2: Three-circle model and the overlaps as potential areas of conflict in family business



Source: Author's illustration. adapted from Tagiuri and Davis (1996).

This influence of the family on the business is often called *familiness*. Habbershon and Williams define familiness as "the unique bundle of resources a particular firm has because of the systems interactions between the family, its individual members, and the business" (1999, p. 11). Frank, Lueger, Nosé, and Suche (2010), who analyzed familiness from a system theoretical point of view, define it as a result of the specific regulation of the interplay of different systems in an overall context with two different reference points: familiness and enterpriseness. From their point of view, it is more than identity, as Zellweger, Eddleston, and Kellermanns (2010) proposed. It can be described and reconstructed "as a manifest and latent rule system which focuses on the quality of structural coupling of family and enterprise and their specific, historically grown contents which are the expression of problem-solving and handling crises successfully" (Frank et al., 2010, p. 128). Thus, familiness is one aspect of attempts to explain the distinction between family business and non-family business, especially regarding the overlapping systems.

In addition to familiness, socioemotional wealth (SEW) as an umbrella construct has been established in family business research since 2007 (Berrone, Cruz, & Gómez-Mejía, 2012; Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, &

Moyano-Fuentes, 2007). The aim of this model was to extend behavioral agency theory, which also integrates elements of prospect theory and behavioral theory. Gómez-Mejía et al., (2007) tried to find a name for the non-economic utilities family members receive from their businesses (Miller & Le Breton-Miller, 2014). Additionally, there is the assumption included in the SEW concept that family members manage their business not to maximize financial returns but to preserve or increase the socioemotional endowments they derive from the business (Gómez-Mejía, Cruz, Berrone, & De Castro, 2011; Miller & Le Breton-Miller, 2014). However, one of the main contributions of SEW research is the FIBER dimensions, which stands for: "**F**amily control and influence, **I**dentification of family members with the firm, **B**inding social ties, **E**motional attachment of family members, and **R**enewal of family bonds to the firm through dynastic succession" (Berrone et al., 2012, p. 259). The FIBER dimensions possibly explain goal-setting processes and transgenerational control, for example.

The concepts explained so far illustrate the soft side of family business and focus on the behavior. To make these concepts tangible and distinguish family businesses from non-family businesses, hard facts are also needed. The three circles of family businesses (family, business, and ownership) are, for example, measured by voting shares, family members in management, or self-evaluation as a family firm. One example of a measurement, which is used in two empirical studies in this dissertation, is the following definition of a family business: *Businesses with regard to (1) an overlap between family, business, and ownership whereby at least 50% of the business must be owned by one family or several families, (2) involvement of one or more family members in management or with an influence on strategic decisions and development, and (3) a business succession process has already taken place, is taking place, or is at the planning stage* (Tagiuri & Davis, 1996; Chua et al., 1999).

Besides the objectification, this definition includes a depiction of the three circles through measurable facts, the willingness to pass on the family firm to the next generation (Chua et al., 1999).[2] A more complex system than the definition above is the F-PEC Scale, which captures various parts of family firms (Astrachan, Klein, & Smyrnios, 2002; Klein, Astrachan, & Smyrnios, 2005). The F-PEC scale includes three subscales: *power*, *experience*, and *culture*, all of which illustrate the characteristics of family firms and familiness. Within the F-PEC scale, the percentage of family members holding shares and management roles is measured as well as the overlap of family and business values. Although every family business has another distribution of shares and some families try to separate their family goals from business goals, all of them could be described as family businesses. This knowledge highlights the heterogeneity of family businesses and could be an explanation for why it is challenging to find a definition (Sharma, Chrisman, & Chua, 1997; Chua et al., 2012). It is problematic that in the last decades, the heterogeneity of family business definitions has produced inconsistencies and conflicting observations (Chua et al., 2012; Melin & Nordqvist, 2007; Steward & Hitt, 2012).

2.2 Stewardship versus Agency Theory

Agency theory (Morck & Yeung, 2003; Schulze et al., 2001) and stewardship theory (Miller & Le Breton-Miller, 2006) are the main theories suitable to explain behavior in family firms (Madison et al., 2016) by integrating the views of other disciplines such as sociology and psychology (Verbeke & Kano, 2012).

Originally, agency problems were not expected in family firms because the same people undertake ownership and management in most cases, but there are initial hints that principal-agent conflicts also exist in family businesses (Chua, Chrisman, & Steier, 2003; Gómez-Mejía, Nunez-Nickel, & Gutierrez, 2001; Madison et al., 2016; Schulze et al., 2001). The principal agency theory is based on the work of Jensen and Meckling (1976), who claim that rational actors seek to

[2] For more information about succession in family firms, please see Chapter 2.3.

maximize their individual utility (Davis, Schoorman, & Donaldson, 1997). To become principal owners, this means contracting with executives to manage their firms for them, which can also be family members who do not have shares. Thus, in family businesses, in the case of contracting between family business owners and other family members, principal-agent conflicts could also occur (Davis et al., 1997; Schulze et al., 2001). In addition, the ultimate goal of family business owners is to improve company performance, and for this reason, increase the value of the ownership stake (Daily, Dalton, & Cannella, 2003; Jensen & Meckling, 1976; Sieger, Zellweger, & Aquino, 2013), and through this, to preserve the SEW (Berrone et al., 2012; Hauck & Prügel, 2015). Thus, as agents are also in favor of following self-interested goals, principals and agents will act in ways that advance their own interests through this opportunistic and self-interested behavior (Sieger et al., 2013). The misalignment of interest implies goal conflicts and fosters information asymmetries between both parties (Ross, 1973).

In general, asymmetric information may lead to an adverse selection problem, which was first noted by Akerlof (1970). Adverse selection describes a situation before contracting and can be illustrated as the situation in which the principal's knowledge about the agent's ability is limited. In this case, the agent knows his own specific ability better and is able to use this information in a self-interested way. Further consequences from information asymmetries could be moral hazard, which describes a situation after contracting as individuals' actions cannot be observed, and hence, contracted upon (Holmström, 1979). It is a form of opportunism arising in agreements in which at least one party relies on the behavior of another and information about the behavior is costly (Alchian & Woodward, 1988). Reducing agency costs by imposing internal controls to keep the agent's self-serving behavior in check and reducing information asymmetries is the overall objective of agency theory (Davis et al., 1997; Jensen & Meckling, 1976). This is done to protect shareholders' interests through various governance mechanisms (Davis et al., 1997). Procedures that could reduce these information asymmetries include monitoring or specific contracting (Holmström, 1979).

In family firms, family relations do occur, for example, parent-child relationships (Schultze, Lubatkin, & Dino, 2003). In this relationship, parents can be overly generous to their children, who may take advantage of this generosity through shirking or free-riding (Chrisman et al., 2004; Eddleston, Kellermanns, & Sarathy, 2008; Madison et al., 2016; Schulze et al., 2001). In addition, moral hazard can be observed through the family firm leader's propensity to refrain from monitoring family members' behavior (Eddleston, Chrisman, Steier, & Chua, 2010; Madison et al., 2016). Moreover, adverse selection can arise through asymmetric altruism when family members hire other family members although there are more qualified non-family members (Wright & Kellermans, 2011). Summarizing these explanations, it can be stated that there are particular theoretical ideas about principal-agent behavior in family businesses, but until today there has been no focused research on family business succession. The current considerations about principal-agent behavior offer initial hints about rising problems during the succession process.

The stewardship theory was developed by researchers to examine situations in which executives are motivated to act in the best interests of their principals (Donaldson & Davis, 1991). In this case, these actors are called stewards (Davis et al., 1997). A steward's behavior is collective and pro-organizational and organizationally centered (Davis et al., 1997). According to this theory, a steward protects and maximizes shareholders' value through firm performance that follows when the steward's utility functions are maximized (Davis et al., 1997). Also, stewards have an income to survive but realize the trade-off between personal needs and organizational objectives and believe that pro-organizational work, collective ends, and personal needs are met (Davis et al., 1997). In contrast to principal agency theory, there is a need for governance structures, which facilitate and empower executives more to act as stewards than monitoring and controlling them (Davis et al., 1997). Davis, Schoorman, & Donaldson (1997) summarize the main differences between agency theory and stewardship theory: "According to agency theory, people are individualistic, utility maximizers. According to stewardship theory, people are collective self-actualizers who achieve utility through organizational achievement" (p. 38).

Intrinsic motivation and identification are considered to facilitate steward behavior and are often found in family firms (Carmon, Miller, Raile, & Roers, 2010; Davis et al., 1997; Eddlestone & Kidwell, 2012; Kotlar & De Massis, 2013). Thus, family firms foster trust and commitment among employees and family members who are employed in the firm, without or before they obtain shares, and in this way, a competitive advantage is created (Davis, Allen, & Hayes, 2010).

Table 2 shows the differences between principal agency theory and stewardship theory.

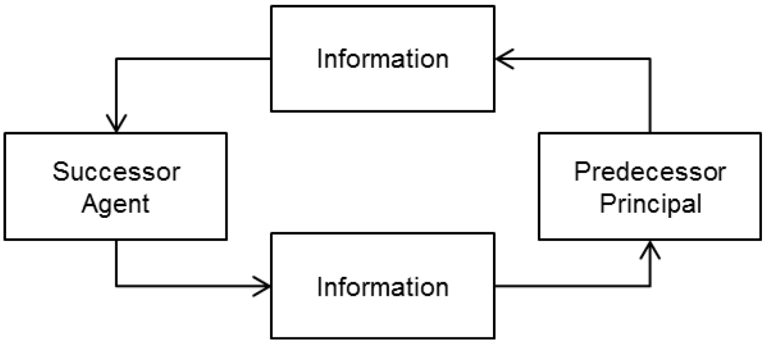
Table 2: Comparison between principal agency theory and stewardship theory

	Agency Theory	Stewardship Theory
Behavior	Self-serving	Collective serving
Psychological Mechanisms		
Motivation	Lower order/economic needs (physiological, security, economic) Extrinsic	Higher order needs (growth, achievement, self-actualization) Intrinsic
Social Comparison	Other managers	Principal
Identification	Low value commitment	High value commitment
Power	Institutional (legitimate, coercive, reward)	Personal (expert, referent)
Situational Mechanisms		
Management Philosophy	Control oriented	Involvement oriented
Risk Orientation	Control mechanisms	Trust
Timeframe	Short term	Long term
Objective	Cost control	Performance enhancement
Cultural Differences	Individualism High power distance	Collectivism Low power distance

Source: Author's illustration. adapted from Davis, Schoorman, & Donaldson (1997, p. 37).

However, the question is, *How do these theories explain behavior in family businesses*? Both theories offer explanations for behavior in family firms. The principal agency theory in family business research offers the opportunity to understand how and at what cost dysfunctional behaviors may be generated by family involvement (Chua, Chrisman, & Steier, 2003). Schulze et al., (2001) propose that family relations may make agency conflicts ´more difficult` to resolve (Schulze et al., 2001, p. 102, italics in original) because relations between principals (family owners) and agents (family-member managers) are based on emotions, sentiments, and informal linkages, resulting in less effective monitoring of family managers. For example, when successors in family firms gain more power over decisions and actions, they are able to use this and show their hidden intentions. Agency theory suggests that success stems from the principal hiring the most competent and skilled CEO to run the business (Blumentritt, Keyt, & Astrachan, 2007; Madison et al., 2016). Up until today, there is ambiguity about whether this happens in family firms and how the identification and selection of the perfect candidate occurs. To gain a deeper understanding of succession, selection, and integration of successors, this process is analyzed through the theoretical lenses of principal agency theory in this dissertation. Following this theoretical point of view, information is exchanged between a principal and an agent. As figure 3 illustrates, the successor acts as an agent and offers information to the principal. The predecessor is defined as the principal and also offers information to the successor. It can be assumed that both actors evaluate this information, and it is a continuous loop until the final decision about what they negotiate takes place.

Figure 3: Information exchange between successor and predecessor from an agency perspective



Source: Author's illustration.

2.3 Business Succession in Family Businesses

Business succession is one of the most important processes in the family business lifecycle and is a long-term, step-by-step approach (Ahlers, Hack, & Kellermanns, 2014; Handler, 1994; Churchill & Hatten, 1997). Family firms deal with two kinds of goals: business goals and family goals (McCann, Leon-Guerrero, & Haley, 2001). One of the ultimate goals is to ensure the firm's survival, especially through business succession (Cadieux, 2007; Royer, Simons, Boyd, & Rafferty, 2008). In the business succession process, the firm deals with the challenge of transferring the specific family goals and values to the next generation. At the same time, the daily business, including operative work as well as strategic decisions for the survival of the company, has to be accomplished. The owner of the business needs to decide whether the family firm has to be transferred to a family member, an employee, an external person, or a combination of these options. As a result, the business succession process starts by thinking about the business's future time after the current owner. Le Breton-Miller, Miller, & Steier (2004) formulate two notions to define the success of a succession: first the subsequent performance of the firm and ultimate viability of the business; second the satisfaction of stakeholders with the business succession process. This dissertation follows the ideas of these authors that subsequent performance and the satisfaction of stakeholders are requirements for successful succession. Nordqvist et al., (2013) highlight that most business succession studies focus on management succession. This is not in line with Le Breton-Miller et al.,'s (2004) study nor this dissertation. The business succession process in this study is defined as the full transfer of management and ownership.

The business succession process can be classified into sequential phases (Le Breton-Miller et al., 2004; Nordqvist et al., 2013; Michel & Kammerlander, 2015). In the first phase, the focus lies on preparation for the succession. Michel and Kammerlander (2015) call it the *trigger phase*; Norqvist et al., (2013) *pre-succession* and in the model of Le Breton-Miller, Miller, & Steier (2004) it is called *setting of ground rules*. During this time, initial ideas for succession come up. This could result from the age of the incumbent, career plans of potential successors, or a need of the company itself. The rules of the succession game have to be communicated early and clearly (Le Breton-Miller et al., 2004; Ward, 1987) including the schedule of the succession, the selection of the successor, and the path for his development. The decision about whether or not the successor has to be a family member is imperative. Currently, family business research assumes that family businesses prefer internal successors and nepotism (Rutherford, Kuratko, & Holt, 2008; Salvato et al., 2012; Schulze et al., 2001). For a successful business succession, it is important to have a firm pool of managerial talents and to have formulated selection and appraisal criteria (Aronoff, 1998; Le Breton-Miller et al., 2004). The planning is very important as well, because of context factors like the burden of estate-related taxes (Lansberg, 1988).

Lansberg (1988) elaborated: "Succession planning means making the preparations necessary to ensure harmony of the family and the continuity of the enterprise through the next generation" (p. 120). In contrast to that elaboration, there are many hints that in family business, (strategic) planning often falls short (e.g., Barach, Gantisky, Carson, & Doochin, 1988; De Massis, Chua, & Chrisman, 2008; Gilding, Gregory, & Cosson, 2015), there is a lack of communication between predecessor and successor (Gilding et al., 2015; Michael-Tsabari & Weiss, 2015), and selection criteria are not well documented (Chrisman et al., 1998; Schlepphorst & Moog, 2014).

Following Le Breton-Miller et al., (2004), the first phase of business succession includes many areas of conflict. The model they offer is a conceptual one. The results of the study suggest that in the first phase through communication and documentation, family businesses prepare themselves for the succession and use their time for planning.

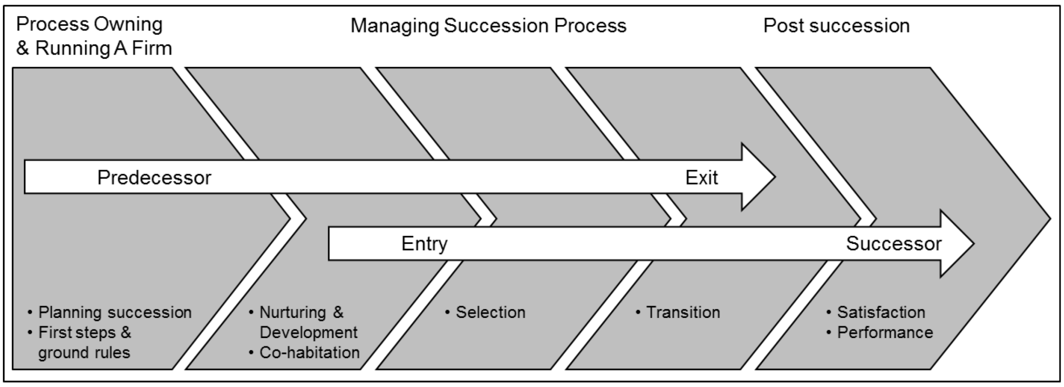
According to Le Breton-Miller et al., (2004) model, the second phase is called *nurturing and development of the successor.* In their understanding, a pool of candidates is trained to acquire knowledge, develop capabilities, and achieve credibility and legitimacy. Furthermore, a training program for potential candidates prepares them for joining the company. During this time, the interpersonal relationship between incumbent and potential candidate is expanded and could be important for the success of the process.

In the third phase, the final *selection* is realized (Le Breton-Miller et al., 2004; Chittor & Das, 2007). The selection criteria should be defined in the first phase. The pool of candidates remaining after the training program and other fulfilled requirements builds the fundament for a final decision of the best candidate out of this pool. During this period, combining the family logic and the business logic is very important in order to maintain family harmony (Jaskiewicz et al., 2015b).

The fourth phase includes the *transition process* as well as *the transfer of capital* (Le Breton-Miller et al., 2004). At this stage, management and ownership succession is realized. This implies that until the ownership succession is finished, the predecessor and other family members who are involved in the selection process could change their decision. This also includes the option that they may choose another form of succession (e.g., external or exit) (Wassermann, 2003). During this phase, the predecessor leaves the company. Meanwhile, the successor phases in as the leader and owner of the family firm. Harvey and Evans (1995) revealed that after this management transfer, many conflicts can occur. Thus, the installation of the next generation of leaders needs to be confirmed by various important stakeholders like key employees, bankers, and suppliers. These network contacts have to be involved in the business succession process (Steier, 2001). There is a lack of knowledge about handling this process in a successful way (Nordqvist et al., 2013). The level of older-generation involvement after succession harms a precipitous change in the culture of family business. Cater and Justis (2009) offer a model of the changing roles of predecessor and successor, and recommend a step-by-step approach. This enables the incumbent to leave the family firm in a carefully arranged manner in order to prevent him from holding a negative feeling about leaving the firm (Brun de Ponent, Wrosch, & Gagne, 2007; Rothwell, 2010; Sharma, Chrisman, Pablo, & Chua, 2001).

The whole process is embedded in a *context*. Thus, the model adds various family and social context factors (Le Breton-Miller et al., 2004; Nordqvist et al., 2013). The family context includes the family influence on the process through family dynamics, familiness (Habbershon et al., 2003; Zellweger et al., 2010), and family communication systems (Jaffe & Lane, 2004). The social context describes the business succession process as a social and family process, which is heavily influenced by cultural norms, such as primogeniture and patriarchy (Ainsworth & Cox, 2003; Hamilton, 2006; Hollander & Bukowitz, 1990; Sharma & Irving, 2005). The family owned context itself concentrates on the composition of the board of directors, the strategy of the family firm, previous business succession experiences, and the organization form of the family business. Miller, Le Breton-Miller, and Lester (2011) propose that the quest for legitimacy manifests in strategies that conform to industry norms; thus, the industry context is also an important context factor, which has to be respected during the succession process. Furthermore, the relationship between incumbent and successor is included in this context factor. This relationship could be affected by commitment (Lansberg & Astrachan, 1994; Kotlar & De Massis, 2013; Sharma & Irving, 2005; Wiklund, Nordqvist, Hellerstedt, & Bird, 2013), and through this, also influence the whole succession process. Figure 4 illustrates the understanding of the business succession process in this dissertation.

Figure 4: Business succession process model



Source: Author's illustration adapted from Nordqvist et al., (2013) and Le Breton-Miller, Miller, & Steier (2004).

The model shows that many steps have to be fulfilled during the time of succession. This includes strategic and operative tasks, and stresses the family and the firm through an overload on tasks. Moreover, this period can be seen as an entrepreneurial process, which includes chances for renewal and change of the company (Nordqvist et al., 2013; Ward, 1997). An entrepreneurial entry of new owners and an entrepreneurial exit of old owners could foster the understanding that succession is associated with new business opportunities through adding new human, social, and/or financial capital and resources (DeTienne, 2010; Nordqvist et al., 2013; Wennberg, Wiklund, Hellerstedt, & Nordqvist, 2011). To use the opportunity to add new social capital, an understanding of social capital is needed. The next chapter offers an overview of social capital theory, which is also used as a theoretical framework in chapter 5.

2.4 Social Capital Theory

Social capital theory has recently been used in family business research, for example, to explain dynamic capabilities, and following this, competitive advantages of family firms because of family (internal) social capital (Arregle et al., 2007; Bizri, 2016; Carr, Cole, Ring, & Blettner, 2011; Frank et al., 2010; Pearson, Carr, & Shaw, 2008; Sanchez-Famoso, Iturralde, & Maseda 2015; Shi, Shepherd, & Schmidts 2015). It explains the importance of interaction and exchanging information between individuals in a social network.

The first definition of social capital was offered by Bourdieu (1985). He defines social capital 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" (p. 248). Following this early definition, many other researchers, mainly sociologists, have dealt with this construct and developed it over the decades (Burt, 1980; Coleman, 1988, 1994; Granovetter, 1973; Putnam, 1993). This is because distinguishing between the market, hierarchical, and social relations is important in understanding and elaborating social capital (Adler & Kwon, 2002). These relations exchange different things like goods and services, obedience to authority, spiritual security, and favors and gifts. Granovetter (1973) distinguished between strong and weak ties measured by "the amount of time, the emotional intensity, the intimacy (mutual confiding) and the reciprocal services" (p. 1361). The distinction between external and internal ties includes a lengthy discussion and many attempts to define social capital. The internal "focuses primarily on social capital as a resource that inheres in the social network tying a focal actor to other actors. On this view, social capital can be the differential success of individuals and firms in their competitive rivalry: the actions of individuals and groups can be greatly facilitated by their direct and indirect links to other actors in social networks" (Adler & Kwon, 2002, p. 19). "In contrast to this view of social capital as a resource located in the external linkages of a focal actor, bonding views focus on collective actors' internal characteristics"(Adler & Kwon, 2002, p. 21).

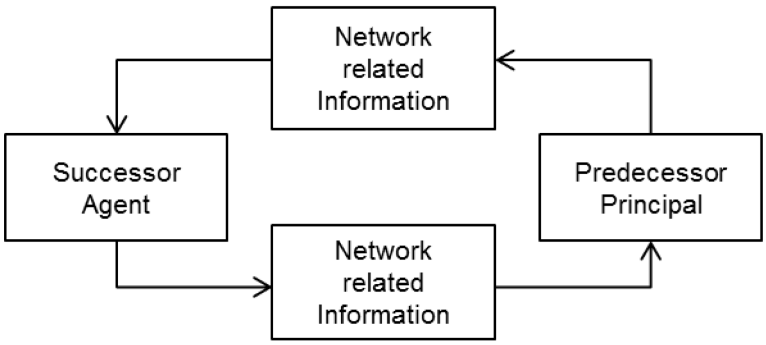
The question of why individuals need social capital can be answered by the fact that social capital is a long-lived asset into which one has to invest with the expectation of a future return of benefits, for example, business deals and innovation creation (Adler & Kwon, 2002; Classen et al., 2012). According to Adler and Kwon (2002), "through investment in building their network of external relations, both individual and collective actors can augment their social capital and thereby gain benefits in the form of superior access to information, power, and solidarity; and by investing in the development of their internal relations, collective actors can strengthen their collective identity and augment their capacity for collective action" (p. 21). Following this, social capital could be used for different purposes and can substitute for or complement other resources. Nahapiet and Ghosal's (1998) model, which suggests that social capital includes structural (network positions), relational (trust), and a cognitive dimension (shared vision), concludes the accomplishments of social capital. As a working definition for this dissertation: "*Social capital is the sum of the actual and potential resources and the goodwill available to individuals embedded within, available through, and derived from the network of relationships possessed by an individual. Social capital thus comprises both the network and the assets that may be mobilized through that network or groups. Its effects flow from the information, influence, and solidarity it makes available to the actor" Adler and Kwon (2002, p. 23), Nahapiet and Ghosal (1998, p. 243), and Lin (2001, p. 3)* is used.

Networks create social capital through the allocation of actors, ties, and communication flows. Networks are based on an assumption of the importance of relationships among interacting individuals or larger units. The focus is on the individual's view of the network structure environment as providing opportunities for or constraints on individual action, and structure (social and economic) is conceptualized as lasting patterns of relations among actors (Wassermann & Faust, 1994).

Social capital in family firms is developed over time and generations and is formed by the values and norms of the family (Arregle et al., 2007; Carr et al., 2011; Frank et al., 2010). For this, it is important to understand that the family system is not separate from the organizational system, but works as a unit whose interactions result in social capital. Social capital theory involves a closer determination of family-firm resources and capabilities as components of familiness (Frank et al., 2010). Arregle et al. (2007) distinguish between family social capital and family firm organizational social capital. In their understanding, family social capital is the social capital developed among family members. The dimensions that determine family social capital are stability, interactions, interdependence, and closure. The organizational social capital is defined as "a resource reflecting the character of social relations within the firm" (Leana & Van Buren, 1999, p. 538). Due to the integration of family and business systems (Gersick, 1997), family social capital affects how the organizational social capital of a family firm is built and often vice versa (Arregle et al., 2007; Sorenson & Biermann, 2009). This could be a competitive advantage of a family firm because of the close connection between family social capital and organizational social capital (Arregle et al., 2007; Carr et al., 2011; Pearson, Carr, & Shaw, 2008). This competitive advantage has to be preserved over generations. Information about network contacts, awareness of the importance of networks and social capital, and a structured way of integration in networks and transfer of network contacts during succession could be a way to preserve social capital in family firms (De Freyman, Richomme-Huet, & Paturel, 2006; Dou & Li, 2012). Moreover, according to Nordqvist et al. (2013), succession can be a chance for adding new social capital by integrating the network of the successor to the network of the family firm (Coleman, 1988). Social capital is inseperably linked with the individual and is an intangible asset (Luthans, Luthans, & Luthans, 2004). In networks, individuals could act as 'brokers'. According to Burt (1999), opinion brokers carry information across the social boundaries between groups. Following this understanding, brokers are 'network entrepreneurs'. For this, specific social capital is needed to enable people to act as a broker. The successor as an individual creates his own individual social capital and is able to integrate this into the existing social capital of the family and the firm. Due to growing up in a family business environment, internal successors can also bring entrepreneurial intention with them and act as brokers in networks (Burt, 1980; Zellweger et al., 2012). Hence, the individual social capital of the predecessor and the successor in an internal family business succession can be an important success factor for the long-term survival of the family firm.

This dissertation follows the theoretical lenses of principal agency theory. From this point of view, two or more actors have to exchange their information about network contacts. Additionally, both of them have their own individual network. Moreover, it can be assumed that the predecessor has information about the family business network. Therefore, the predecessor is liable to exchange family business network information. This information exchange is also a loop, because the successor has to show that he receives the information, and moreover, is able to evaluate the information and adapt his behavior, for example, to integrate himself into the existing network.

Figure 5: Network related information exchange from an agency perspective



Source: Author's illustration.

2.5 An Overall Theoretical Model of Business Succession from an Agency Theory Perspective

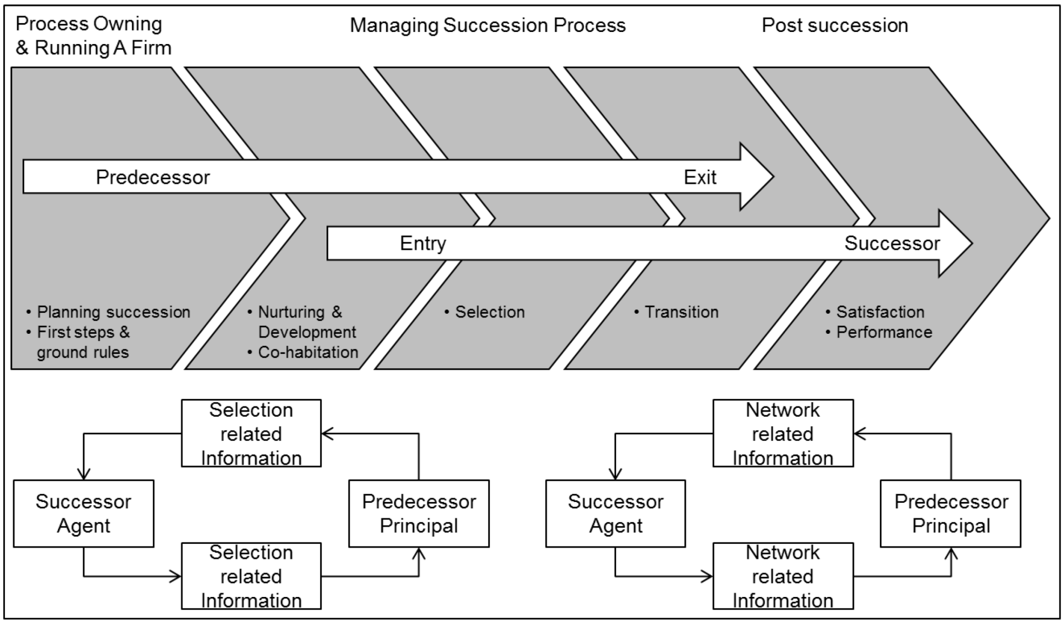
This chapter tries to combine the theoretical considerations and develop an overall theoretical model of business succession from an agency perspective. The common understanding of business succession as a long-lasting, step-by-step process remains. In this thesis, the focus lies on family internal succession. The thesis attempts to integrate the understanding of succession as an entrepreneurial process from Nordqvist et al., (2013) into the general business succession model of Le Breton-Miller, Miller, & Steier (2004). Following this, there is a predecessor who searches for an internal successor, who takes over the firm. Moreover, there is the basis assumption that a personnel selection process is inherent, until the final decision of who will be the candidate with the perfect fit. This is completed by the assumption that a principal (predecessor) and an agent (potential successor) act in the business succession process.

A principal-agent situation occurs due to information asymmetries. Presently, there are initial insights that information asymmetries exist in family businesses (Madison et al., 2016) but there is no confirmed knowledge of whether asymmetries exist in family businesses, and if so, how they appear in detail. In the model explained here, it has to be assumed that information asymmetries do exist because of the personnel selection situation of successors by the predecessors and the possibility that the two parties could have diametrically opposed expectations regarding the takeover (i.e., regarding the intention of potential family internal successors to succeed in the business). Finally, at the end of the process, the selection of one successor has to take place. Therefore, it seems necessary that also in family businesses there is an inherent process to reduce information asymmetries over time between the parties and allow a final (best) decision. Thus, rich and valuable information has to be exchanged between the parties until the final selection to ease the problem of information asymmetries.

Moreover, after the management's decision concerning succession in family firms as well as during the phase when both actors are working together or managing the succession through an active takeover, further information has to be exchanged. For example, this information may include financial issues concerning assets and liabilities, information on passwords of personnel computers and safes, information regarding important employees, and also the names and relationships of important customers and suppliers. This information exchange is important for the success of the process because it can be crucial for managing the firm. Moreover, it underlines that there could also be a principal-agent situation after the management selection regarding important information the predecessor obtains and the successor would need.

The overall model in figure 6 offers an overview of the current theoretical understanding of the business succession process from a principal agency point of view. Furthermore, the model offers a conclusion of different theoretical approaches by explaining the succession process and positive outcomes.

Figure 6: Theoretical model of business succession from an agency perspective



Source: Author's illustration based on Nordqvist et al., (2013) and Le Breton-Miller, Miller and Steier (2004).

The theoretical model builds the fundament for all following qualitative empirical studies in the thesis. The first two qualitative analyses (chapter 3 and chapter 4) focus on the first information exchange loop, as illustrated in the model. First, there is a need for clarification of whether the actors are aware of the need for an information exchange. This is analyzed by focusing on information asymmetries and attempting to understand if there are processes in family firms to overcome these information asymmetries over time. The first study deals with this issue. The second study also focuses on the first loop but from another perspective – it deals especially with the selection process of internal candidates. Finally, the third study focuses on the second information exchange loop by shedding light on network related information. It is assumed that most of the network related information is exchanged during the time when the predecessor and successor are working together.

3 It happens even in the best Families: Information Asymmetries and internal Business Succession

ABSTRACT

We follow the general extension of agency theory discussion regarding family business to gain deeper insights into the underlying information asymmetries in family business. Doing so, we observe and analyze in depth 14 case studies delivering new insights on information asymmetries occurring in every phase of the succession process. We observe and investigate numerous role changes between the normal assignment of principals and agents and develop a business succession model. Furthermore, we observe a lack of awareness of information asymmetries and can identify the first indications of the inherent processes used to handle information asymmetries.

Keywords: Business Succession, Information Asymmetries, Family Firms

3.1 Introduction

When you ask yourself whether your parents know everything or should know everything you have done in your youth, you come quite quickly to the conclusion that even in the relationship between parents and their children, there are some secrets. However, we do not mean only secrets about "bad things" we have done but also other things in this relationship, such as motivations or intentions for things we do and our behavior in the one or the other way. Additionally, parents sometimes have the opinion that not everything is destined for the ears of their kids. Thus, not everything in this relationship is clearly said to one another, even when the intention is to avoid to do harm to the other person. So, why should there not be secrets between parents and children when they talk about family business succession? The hierarchic relationship, even if it is less distinct, between a father and his son, father and his daughter or mother and her children, remains. It is even reflected in the wording: the predecessor and the successor. Thus, it can be asked, if there is the possibility that the same situation could come up in a business succession process.

Because of the major role of family businesses in economics, there is a large area of research on these types of businesses. One of the most important streams in this field is business succession, because it is a critical moment in the lifecycle of a business (Ward, 1988). Often, the right successor cannot be found or there is no potential successor in the family, and ultimately, there is the possibility that the succession will fail and the business will die or get sold.

The literature differentiates between internal and external family business succession (Sardeshmukh & Corbett, 2011), and following this idea, there are several types of succession models that differentiate between various types of succession modes. We will build upon the model of Le Breton-Miller, Miller, & Steier (2004), which gives, in our point of view, the best practical advice for the succession process and provides an accepted framework (Sharma, 2004). A successful succession according to Le Breton-Miller, Miller, & Steier (2004) is fulfilled if the stakeholders are satisfied with the succession. The subsequent positive performance of the firm and the viability of the business are also needed.

In the last few decades, research about succession has concentrated on management succession (Nordqvist et al., 2013). In family firms, management and ownership are transferred, and both transfers have to be planned and realized. We observe formal or informal contracts regarding the handover of the family business. There can be different expectations about the succession mode between predecessor and successor because there are various possible exit strategies (Dehlen, Zellweger, Kammerlander & Halter, 2014). The differing expectations about the succession mode have to be matched, and the predecessor and successor should agree upon the solution to close the contract. For this purpose, an exchange of information between the contract parties has to be realized. There are two kinds of information that have to be exchanged: information on the family side and information on the business side. Both information exchanges are goal oriented: satisfaction in the family and long-term survival in the business field (Jaskiewicz et al., 2015b; Le Breton-Miller et al., 2004) to generate a contract for the succession in general. Thus, we assume that there is one contract based on the social interactions and liabilities that addresses the goals of the family members (Emerson, 1976; Cropanzano & Mitchel, 2005; Jaskiewicz et al., 2015b). For example, the expectation of the father, that the son will overtake the family firm, is an unwritten contract, which we label as the *family contract.* In addition to this family contract, there is another, probably formal contract addressing the succession aspects of management and ownership. We label this contract the *business contract.* Following this understanding of behavior between predecessors and successors, it is obvious that there could be many information asymmetries. These are information asymmetries in the daily family relationship, but they could even be more difficult to overcome in this context of family business compared to non-family business because of the tight relationship between predecessor and successor. The information asymmetries could even multiply if we consider that there are often more-complex constructions in the succession process as a two-person relationship, for example when there are more than one predecessor or more potential successors or family members being interested in the business. At this stage of the research we conclude that information asymmetries during succession in family business exist and can be a problem for family and business (Schulze et al., 2001).

This understanding is based on an agency relationship (Jensen & Meckling, 1976; Schulze et al., 2001). Following Jensen & Meckling (1976), an agency relationship is a "contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some services on their behalf which involves delegating some decision making authority to the agent." (p: 308). In business succession situations, the predecessor plays the role of a principal, and the successor plays the role of an agent. This results from the fact that the predecessor has a need to identify the candidate who best fits the family and the firm in the position or role of a manager and owner. This is a personnel selection situation that occurs before the final business succession contract takes place. In this environment, the successor is the person most informed about his or her own abilities and motivations. Under the assumption that both parties are utility maximizers, there are good reasons why the agent will not always act in the best interest of the principal (Jensen & Meckling, 1976). This agency relationship creates information asymmetries (Akerlof, 1970, Schulze et al., 2001), making it possible for agents to engage in activities that harm the welfare of the current owner(s) or potential successors and encourage the agent's motivation. To overcome this negative outcome, agency costs occur. Agency costs are defined as the sum of "the monitoring expenditures by the principal, the bonding expenditures by the agent and the residual loss" (Jensen & Meckling, 1976: p.6). Schulze et al., (2001) underline that various conflicts and challenges occur from the agency relationship in family firms.

Currently, only a few studies offer theoretical assumptions of information asymmetries and agency costs in family firms (e.g., Chrisman et al., 2004;

Madison et al., 2016). Dehlen and colleagues (2014) elaborate four different types of information asymmetries that can occur in family business succession. First, the succession candidate lacks information about the 'quality' of the transaction goods; second, the succession candidate is unaware of the incumbent's intentions and planned post-succession behavior. Third, the incumbent has inferior information about the successor's abilities. Fourth, the incumbent is unable to determine or predict the successor's intentions and post-succession behavior. Michel & Kammerlander (2015) stress existing information asymmetries in family firms that could be reduced or increased by trusted advisors. They do not work out concrete types of information asymmetries, so it could be asked how family firms and trusted advisors should reduce information asymmetries if they do not know which kind exist. Zellweger & Kammerlander (2015) offer first theoretical assumptions about why different governance structures foster agency costs in family firms in general but do not offer insights about information asymmetries during succession. All of these studies mention general types of information asymmetries and give important hints that information asymmetries do exist even in family firms. We built our study on these first results, realizing that there is a lack of understanding how these information asymmetries occur and develop in reality and provide case evidence to give proof for these phenomena. We want to contribute to this discussion by delivering examples of information asymmetries. Moreover, the mentioned studies focus on potential information asymmetries in the pre-contracting phase that means prior to the decision regarding the succession mode – the handover of the management and ownerships position; however, information asymmetries can also come up in later phases.

Thus, we want to contribute to this discussion by underlying that there is a need to clarify whether there are information asymmetries and what kind of potential information asymmetries exist, especially in which phase of the succession process. Thus, this paper examines in depth the phenomenon of information asymmetries in family internal business succession from different perspectives. We will investigate the existence of these information asymmetries, structure them into types and analyze how and when they occur in the process of family internal business succession. The overall research question of this study is: *Which kinds of information asymmetries exist in family firms before, during and after the succession process?* In answering this question, we contribute to the existing literature by providing new insights into information asymmetries in the family internal business succession process.

The first contribution of this paper is a new theoretical view on information asymmetries in family internal business succession. This view can help develop the research field and lead to a better understanding of problems in family internal business succession. Internal successors would be able to search for information on their own to reduce information asymmetries that hinder their motivation to succeed. By including the social exchange theory and clarifying the different roles of actors, implications for researchers and practitioners can be offered. The results will influence current research about selection criteria, the business succession process and the knowledge-based view of business succession.

The second contribution of this paper is that it examines the bidirectional form of information asymmetries and the process-oriented analyses of them. Through gaining deeper insights into the contract between the two parties of predecessor and successor, it is possible to determine different areas of conflict during the business succession process. The negotiation of the succession mode between closely related actors is the basis of this research. In clarifying changes in information asymmetries over time, the study can help practitioners identify problems related to information asymmetries and help overcome them.

This paper starts with the theoretical background, that is, the differentiation and explanation of information asymmetries and the principal agent theory. We also discuss the process of business succession to embed our view within the existing literature. Following this, we explain our methods. Afterward, we show results from our analysis, illustrate our results with quotations from our interviews and develop an overall model. Finally, we discuss our findings, explain the implications for research and practice and end with our conclusions.

3.2 Theoretical Framework

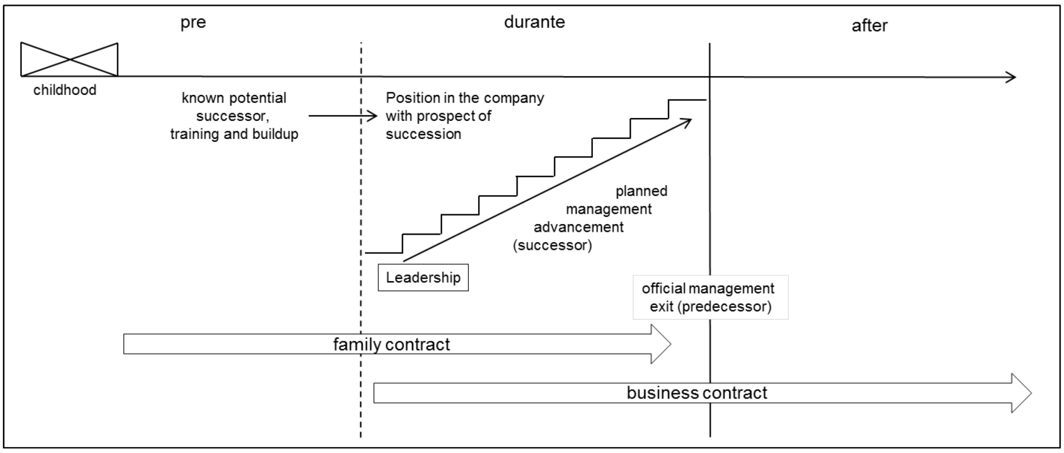
Le Breton-Miller, Miller, & Steier (2004) describe succession as a long-lasting process. The predecessor has to set ground rules and perform the first steps of planning succession. The development and nurturing of the successor is the time when potential successors join the family business and have to fulfill various requirements, for example, an internal education program. We call this the pre-phase. Commonly, the transfer of shares is a step-by-step approach (Wiklund, et al., 2013). Until the final ownership transfer, successors do not have shares or have only restricted shares, but they already have some or get step by step large(r) management competencies. We label this phase the durante-phase. After the selection, the transition starts, the predecessor leaves the family business, and the succession is finalized through transferring ownership. The exit of the predecessor concludes the time the predecessor and successor worked together in the family business. But at the end, the predecessor is responsible for making the final decision about the candidate who is the best fit for the family and the firm and to whom he will transfer the family business. The ownership and the final decision regarding competency lies with the predecessor.

The model illustrates that succession is a long-term process in which predecessor and successor have to address various areas of conflict. Moreover, it shows that a personnel selection situation is inherent. The predecessor has to identify the candidate who is the best fit for the family and the firm. There are contracting situations, which include on the one hand agreements about educational development and on the other hand the legal and financial conditions of the succession mode (Nordqvist et al., 2013; Wiklund et al., 2013). The succession process takes place over several years, during which various agency situations may occur (Madison et al., 2016; Schulze et al., 2001; Sharma, Chrisman & Chua, 2003). Both actors have to align their interests over time, and the development of the family business may require adjustments of initial expectations and agreements (Jaskiewicz et al., 2015b).

Following this, we differentiate between two contracts and focus on the management succession. First, there is the *family contract* among the family members. Both actors can ask who wants what from whom. This question is a fundament for a contract. There are more than legal contracts (Gómez-Mejía et al., 2001). According to the social exchange theory, psychological contracts also exist. Family heads in their double role as family member and predecessor would like to have a family member as successor. Expectations about the willingness and motivation to succeed are part of the psychological contract. This is connected with the role as family head, which also would preserve the economic fundament of the subsequent generations through transferring a family firm (DeTienne & Chirico, 2013; Miller, Le Breton-Miller, & Lester, 2013; Naldi et al., 2013). There are also first findings that in the case of family business, psychological contracts between predecessor and successor are inherent (Cropanzano & Mitchell, 2005; Rousseau, 1995). It is assumed that this psychological contract starts with every birth of a potential successor. Children would like to have the chance to succeed as well as the chance to opt out. Through joining the company with the aim to become successor of the firm and starting a structured development and nurturing process, the contract between both parties is closed, because one family member makes the decision to succeed and fulfills the expectations of the other family members. Upon fulfilling the expectation that there is willingness to succeed, the after-phase starts. Second, there is the *business contract* between the predecessor and the successor. This contract is a written one that includes legal, financial and organizational conditions. We define the starting point of the succession contracting phase as this point in time, when the successor decides to join the company and obtains a position that enables him to become successor. The point in time when the predecessor leaves the management board of the family business upon implementing the successor as the one and only leader of the company is the point in time that closes the contracting phase and starts the after-phase.

Keeping in mind the different phases and the two contracts, we can conclude that there is an overlap between the two contracts. The phase between joining the company to become the successor of the firm and the day of the final conclusion of contract we label as the durante-phase. Both parties could have different expectations and different motivational factors that can influence the contracts. In the family contract, emotions can blind both parties, and in the business contract, business goals can influence decisions (Jaskiewicz et al., 2015b). As a result, during this time, different types of information asymmetries can come up.

Figure 7: Business succession phase model and contract definition



Source: Author’s illustration.

Different contracts could imply a principal-agent-situation. In the case of business succession, the principal is searching for someone who is willing to overtake the business, and the agent is the person who would like to succeed. Thus, there are some hints that agency conflicts and agency costs could also occur in family businesses (Gómez-Mejía et al., 2001; Schulze et al., 2001). Asymmetric altruism, nepotism and lack of self-control (Bergstrom, 1989; Bernheim & Stark, 1988; Schulze et al., 2001; Schulze, et al., 2003) could promote shirking and free riding in two ways. First, “asymmetric altruism and lack of self-control can together make it difficult to enforce the explicit and implicit contracts between family owners and family members working in the business when the latter engage in opportunistic behavior" (Chua, Chrisman, & Bergiel, 2009, p. 357). Second, altruism can color performance evaluations. The premise that asymmetric altruism can have a significant impact on the behavior and performance of family firms is already analyzed (e.g., Chrisman, Chua, Kellermanns & Chang, 2007; Chua et al., 2009; Karra, Tracey & Philipps, 2006; Madison et al., 2016; Schulze et al., 2001, Schulze et al., 2003). "Although the interests of family owners and managers may overlap to a greater extent than the interests of owners and managers in nonfamily firms, asymmetric altruism could promote economic agency costs through the difficulty in enforcing contracts and biased evaluations of managers' contributions to firm performance" (Chua et al., 2009, p. 357; Schulze et al., 2001).

The principal agent theory implies the following problems that could negatively influence the contracting phase and, as a result, the success of the succession. All of these problems derive from information asymmetries. Prior to business succession, adverse selection can emerge. Adverse selection results from asymmetrically distributed knowledge about potential-successor abilities (Akerlof, 1970; Greenwald, 1986).

The moral hazard and hold-up phenomenon could take place after (ex post) the contracting phase. In this study, there is the assumption that after the selection of a successor and giving him a management position in the family firm, this phenomenon could come up. Moral hazard results from an "asymmetry of information among individuals because individual actions cannot be observed and hence contracted upon" (Holmström, 1979, p.74). It is a form of opportunism arising in agreements in which at least one party relies on the behavior of another and information about the behavior is costly (Alchian & Woodward, 1988). Procedures that could reduce these information asymmetries include monitoring or a specific type of contracting (Holmström, 1979). Both would also be possible in the durante-phase of business succession. The holdup phenomenon could simply be described as a purely bilateral relationship in which there are no other potential employees for the firm, no alternative jobs for the employee and where information is entirely symmetric so that both firm and employee know as much as the other (Malcomson, 1997). The agent is able to use the free spaces in contracts for his or her own advantage. When successors in family firms have more space for decisions and actions, they are able to use this space in a durante-phase and show their hidden intentions. Schulze et al., (2001) find that family relations may make agency conflicts 'more difficult' to resolve because relations between principals (family owners) and agents (family-member managers) are based on emotions, sentiments and informal linkages, resulting in less-effective monitoring of family managers (p. 122, italics in original).

The current state of knowledge about agency relationships in family firms is far from perfect. Furthermore, research in the last decade has focused more on agency costs than on the causes, the information asymmetry itself (e.g., Cruz, Gómez-Mejia & Becerra, 2010; Zellweger & Kammerlander, 2015). Based on the theoretical understanding of information asymmetries in family business, this study takes a step backward and defines the following research questions: *Which kinds of information asymmetries exist in family businesses before, during and after the succession process? Do the information asymmetries change over time?*

3.3 Data and Method

Our general aim is to provide in-depth insights into the information asymmetries in family businesses. Because we want to describe the phenomenon in a real-life context - information asymmetries during the business succession process - we selected the multiple-case study method (Yin, 1984). In our research, we address research questions that try to explain *how* and *why* a phenomenon takes place (Yin, 1984). To answer these questions, we chose an exploratory descriptive multiple-case study design (Eisenhardt, 1989). Another reason for using a multiple-case study is that it offers the possibility to create a more robust base for this explorative approach (Yin, 1984) with an inductive research design.

To be part of the case study sample, certain requirements for being a family firm had to be fulfilled. According to Chua, Chrisman, & Sharma (1999), we define a family business if the following criteria are fulfilled: First, at least 50 % of the business must be owned by one or more families. Second, one or more family members have to be involved in management or have an influence on strategic decisions and development. Third, a business succession process must have already taken place, be taking place or be at the planning stage. In addition to the criteria we investigated before every interview, every interviewee was asked for his or her evaluation of whether the company is a family firm.

We gathered information through semi-structured interviews. Two of the authors interviewed 49 family members in 14 family firms from 2009 to 2014. The interviews with the family members yielded 882 1.5-spaced pages of text. The interviews took an average of 51 minutes, ranging from 23 to 95 minutes. Eisenhardt (1989) suggests a limited sample to gain deep insights in processes. Following this recommendation, in the first step, we chose six case studies with 21 interviews. In this sample, for every succession stage (planned, started and completed), two cases should be included. During the process of crafting instruments and protocols and entering the field, further questions came up regarding, e.g., firm size and age of the successor. For this reason, we gathered eight more case studies to address these open questions. This is in line with Eisenhardt (1989) because overlapping data analysis with data collection allows adjustments during the data collection process. To gain deep insights and to be able to compare the different statements, we concentrate on interview questions related to selection criteria, time frame of the selection process, the pool of candidates, external education and training prior to the business succession process. We were able to talk with at least two persons from every family business (predecessor and successor), but in most cases, we also talked to the spouse of the predecessor, other potential candidates or core employees. Therefore, we are able to consider several views in the selection process. The final sample of firms is shown in table 3.

Table 3: Overview case studies

Company/Case	1	2	3	4	5	6	7
Branch of industry	Chemical industry	Heating contractor	Hotel and catering	Food retailing	Services	Refigeration	Sale of motor vehicles
Legal structure	Estmt: SP, Change to LLC	Estmt: SP, Change to LLC	SP	n/s	LLP	LP	LLC
No. of interviews	4	4	6	4	2	5	3
Family Generation	2	2	5	5	1	1	2
Status of Susseccion	Planned	Planned	Planned	Planned	Started	Started	Non-completed

Company/Case	8	9	10	11	12	13	14
Branch of industry	Mfg. of machines	Meat processing	Gas, water, heating installer	Building company	Industrial supplier	Technical Building Equipment	Painter
Legal structure	LLC	Estmt: SP, Change to LP	LP	Estmt: SP, Change to LLC	LLC	LLC	GP
No. of interviews	3	2	4	2	2	3	5
Family Generation	3	3	4	2	2	3	5
Status of Susseccion	Non-completed	Non-completed	Started	Complete	Almost complete	Completed	Complete / Next Succ. Planned

Estmt = Establishment; LLC = Limited Liability; LP = Limited Partnership; SP = Sole Properietorship; GP = General Partnership; n/s not specified

In line with Eisenhardt´s (1989) eight-step process, we iteratively analyzed the qualitative data, following the theoretical and empirical evidence of principal agent theory. The authors coded and analyzed the data in the following way: First, we summarized the findings of the data-collection process through detailed case descriptions. Through the orientation to the theoretical model, we created an initial coding scheme for the higher-order constructs. The additional subcategories were built by open coding because of the specific situations in different family firms and the specific characteristic of the information asymmetries. To show how the coding of primary to secondary codes and, finally, to categories progressed, we used a format by Gioia, Corley & Hamilton (2013). Figure 8 illustrates the coding for the pre-phase. We used the MAXQDA and Excel computer programs to organize our data and code interviews. A subsequent cross-case analysis enabled us to establish overall categories as a database for developing propositions. After data reduction and data contextualization, we were also able to distinguish between deductive and inductive generated information. After gathering the independent perspectives of the individual coders, we discussed any remaining discrepancies with the third author until consensus was reached. Arranging the categories chronologically in connection with the theoretical model enabled us to develop an information asymmetry model for family firms. We presented the preliminary results to experts and interviewees and used their feedback (Flick, 2014).

3.4 Analysis and Results

The iterative process of data analysis, literature review and writing resulted in propositions and an overall model that explains information asymmetries in family businesses. Following the theoretical understanding of two contracts during the business succession process, we describe our findings chronologically, from the phase before integrating the potential successor into the firm until the departure of the predecessor. In this section, we illustrate every phase of the process and display the results from our case analysis with quotes from our interviews. To reduce complexity in the first step, we focus on the following question*: Are there information asymmetries or not?* The analyzed categories in the phases are sorted in descending order to illustrate the number of cases in which these information asymmetries occurred and the frequency of citations in each category. Furthermore, after analyzing the existence of information asymmetries, we asked what kinds of information asymmetries were we able to identify and what happens with these information asymmetries over time. Thus, in the next sections we present our findings regarding information symmetries at the different stages of succession.

3.4.1 Information Asymmetries in the pre-Phase of Business Succession

For the pre-phase of succession, we separated our coding into six categories of information asymmetries. To analyze the pre-phase of business succession, we had material from six cases, with a total of 113 codings. The data structure for the pre-phase is illustrated in figure 8. The first category, *legal/financial succession*, combines the information asymmetries between predecessor and successor regarding the design of management transfer, financial succession and the pension plans of the predecessor. The second category contains the *educational requirements* the predecessor expects from the successor. For example we found indications that educational requirements are often not known by the successor.

> *12.pre: Uh, I would say so, the education was a necessity.*
>
> *12.int_suc: Yes. I do not know if I would have said: "I do not want to study." Whether he would have said: "Yes, without studying, you can forget that."*

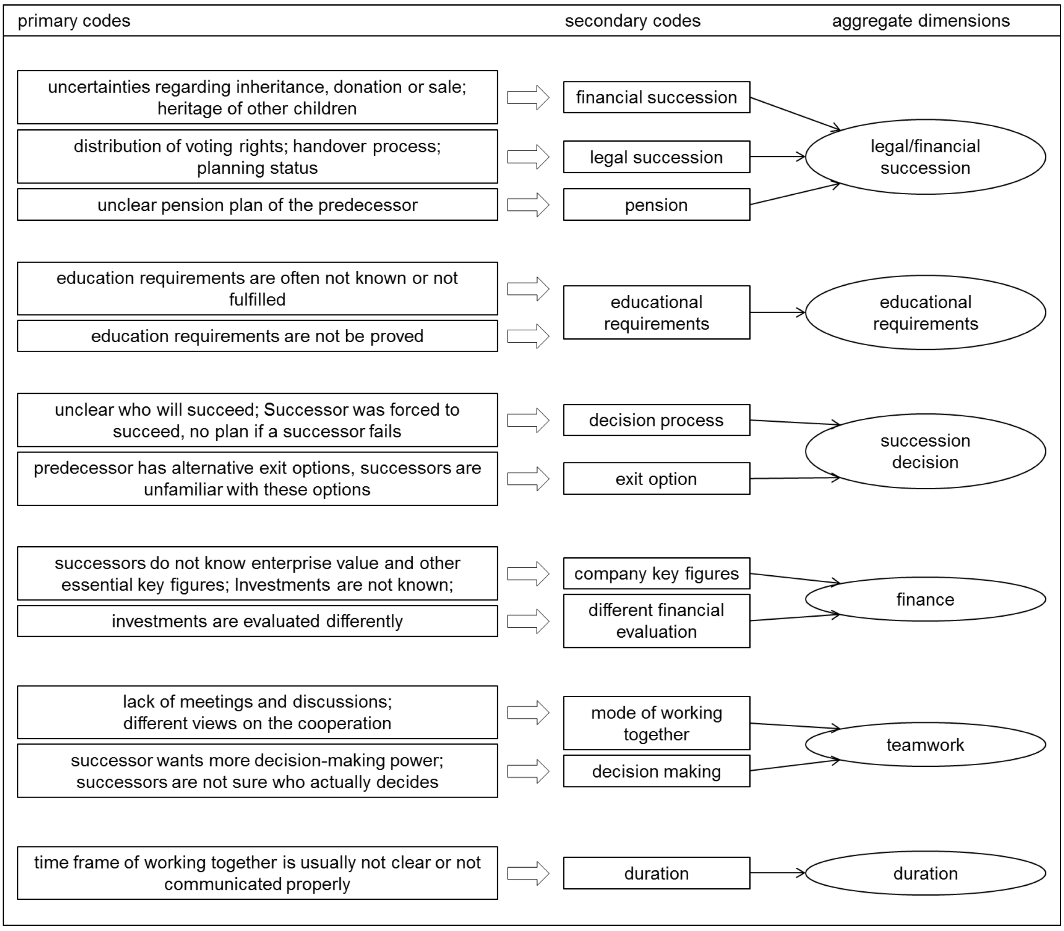
In some cases, it is instead clear that these requirements would not be fulfilled by the successor. The possible resulting conflicts can be traced back to these basic information asymmetries. Additionally, we can observe that in most cases, predecessors do not require hard proof of the successor’s education. Thus, successors do not have to show their reports and certificates.

The following category (*succession decision*) combines the information asymmetries regarding the decision of who will succeed, alternative plans for the succession that neither party to the negotiation knows and other related asymmetries. In the fourth category (*finance*), we found information asymmetries about the financial situation of the enterprise. In the following example, the predecessor did not know how he held back investments before succession, or he did not want to realize it. However, this is not the point. The interesting phenomenon is that the successor explicitly mentioned that they had the opportunity to obtain this information before the succession by “going with open eyes through the company”, but they did not do so.

> *When it was not really clear that your son would take over the company, were some investments restrained?*
>
> *11.pre: No. I say sometimes, like when I talk to a farmer: “Why are you doing this, because you’ve got no successor?” “I just go on doing so,” he says. You cannot simply stop when the engine is running. You have to continue on in your current direction.*
>
> *11.suc: No, I’m not blind. You only have to open your eyes and go once through the company. Then you’ll know where investments have been held back and where not.*

Other asymmetries in this category show that the successor often does not know the company’s value, its financial situation or its strategy. These are key information about the company that are known by the predecessor and should be important for a potential successor in making his succession decision. The fifth category (*teamwork*) includes information asymmetries on the expected cooperation between the predecessor and the successor while they work together until the exit of the predecessor, such as the kind of cooperation and the decision making process. The last category consists of asymmetries about the expected *duration* of succession. Figure 8 provides a detailed overview of the structure of the data in the pre-phase.

Figure 8: Data structure



Source: Author's illustration.

During the analyses, we observed that the information asymmetries do not solely occur in the classical manner of the principal-agent theory. According to the classical theory, the predecessor should be the principal and the successor should be the agent, with the known problem of limited information about the successor. Instead, we found that these roles can switch between predecessor and successor. We had to recognize that it is not just the successor holding back information by not appropriately communicating with the predecessor. More often, the predecessor does not detail all of his plans, thoughts and appropriate information to the successor. The successor is also in the situation that he or she needs to know as much as possible from the predecessor about the enterprise because successors will take on financial burdens and liabilities. In figure 9, the categories are sorted by their cross-case frequency in a descending order with their observed direction of information asymmetries. In most cases, the lack of information goes from the predecessor to the successor, and in some categories, the information asymmetries occur in both directions.

For example, in the first and most outstanding category, *legal/financial succession*, it can be observed that in most cases, the potential successor does not have all of the necessary information. On the one hand, many successors do not know enough about their future role in the enterprise. For example, they may not have a plan for how the management shares will be divided or they may not know at which stage the predecessor's planning is or how their siblings will be involved. The following statement is characteristic of these problems.

> *Will you then - in the case of management succession or during the succession process - be in an employment relationship or will you get shares of the enterprise?*
>
> *2.suc: I don't know. I have no idea.*

On the other hand, many successors do not know how the ownership will finally be transferred, whether it will be bequeathed or given away or if they will have to pay for it, as in the following example:

> *Will your parents at first keep shares or transfer them all?*
>
> *1.suc: It is difficult to tell for me. Maybe they will keep a few shares, but maybe they will transfer 100% to us. I don't know yet.*

Another major problem is that the successor often does not know enough about the pension plans of the predecessor even though the pension can be a critical problem in the succession process because it can weigh heavily on the company's or the successor's financial situation and determine the financial succession. It can be assumed that the predecessor, when he makes considerations for his succession, already has a plan for his pension. A clear arrangement is lacking between the two parties.

Do you know how your parent's retirement is financed?

3.suc: The retirement of my parents? Yes, by me I guess.

Summarizing the current findings, it could be proposed that there are information asymmetries regarding the financial situation and the consequences of this situation for further development of the company as well as the family situation.

The complexity of the category *succession decision* with bidirectional information asymmetries illustrates the different conflicts that can come up. There are different information asymmetries that have many interdependencies. Close to the unknown expectations of *educational requirements*, the predecessor often does not know if and why potential candidates are willing to succeed. The normal case instead is that the predecessor decides who will succeed without concrete information about the factors of motivation. Additionally, the potential candidates are sometimes unsure if and why they will be chosen. If they have the feeling of high personal or organizational commitment, they are unsure whether they are in a situation to say that they are unwilling to succeed. In these cases, they do not communicate their real intention. All of these information asymmetries take place during the time of selection. In addition to internal family information asymmetries, the situation can become more complicated because of the possibility that, next to the internal pool of candidates, external options may be seen by the predecessor but not the successor. Among the asymmetries in this category is that successors often do not know that various exit strategies can be envisioned by the predecessor, and some have no clue about emergency plans when, for example, the succession has to occur suddenly or the intended successor fails.

Predecessors and successors have their own expectations about *teamwork*, and here, bidirectional information asymmetries can be also observed. Some predecessors think the successor wants them to stay out, but they do not know what the successor's opinion is.

Can you imagine which expectations your successor could provide specifically to you?

3.pre.: Perhaps, that we should not interfere here in everything.

Another case shows from the third person view a lack of communication between the two parties about their cooperation in this transition phase.

7.pot.suc.: I would say my father thinks he has released quite a lot. My brother thinks, "Oh God, he has not yet released at all," and I think they are meeting at the moment on a good middle way. I think they don't really know the opinion of each other.

In other cases, the successor does not know who will make the operative and strategic decisions for the company, or the successor wants more decisive power. Moreover, in the case of the *duration* of the succession, bidirectional information asymmetries can again be observed because both parties have their own ideas of this duration. The emerging problem seems to be a lack of communication about these plans.

1.int.suc: For the introductory training, at least one year; for the whole succession, at least two years.

Has there been any negotiations about it?

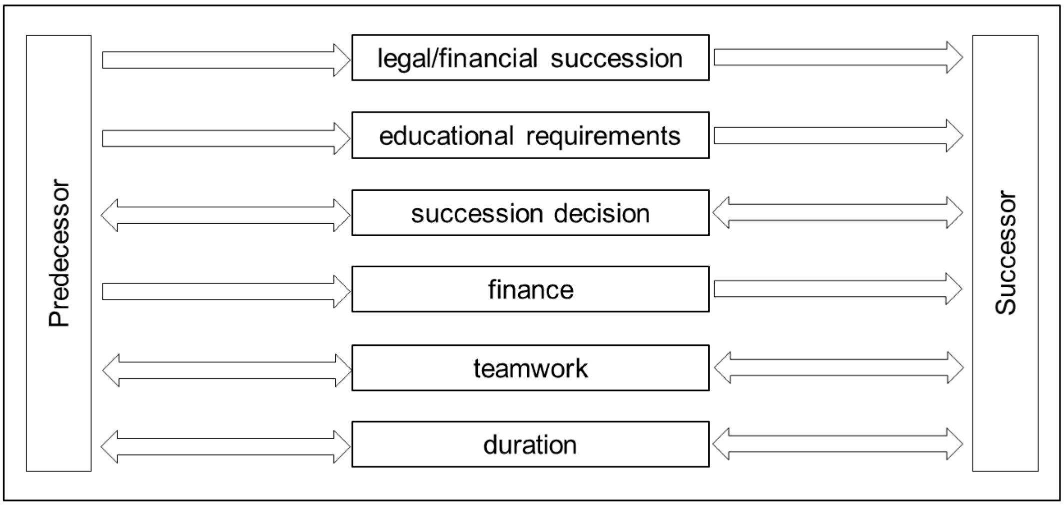
1.int_suc_1: No.

In most cases, both parties have an idea about the timeframe, but their ideas are not the same.

9.pre.: (...) for me, the most important thing is: "learning by doing". Because of that, the early succession, you need to grow organically.

9.suc.: As we practically started this transfer process, I have to honestly say now, it was not already clear to me that this will take such a long time and how complex it is in the proper sense, so this was actually not so clear to me.

Figure 9: Information asymmetries in the pre-phase of succession



Source: Author's illustration.

In addition to the categories we illustrated above, we found hints of information asymmetries according to *changes in the company*, *knowledge transfer*, *networks and commitment*. However, the database was too small to build up categories for these findings. We can propose that prior to business succession, questions about structural processes and selection criteria are greatly affected by information asymmetries.

3.4.2 Information Asymmetries in the durante-Phase of Business Succession.

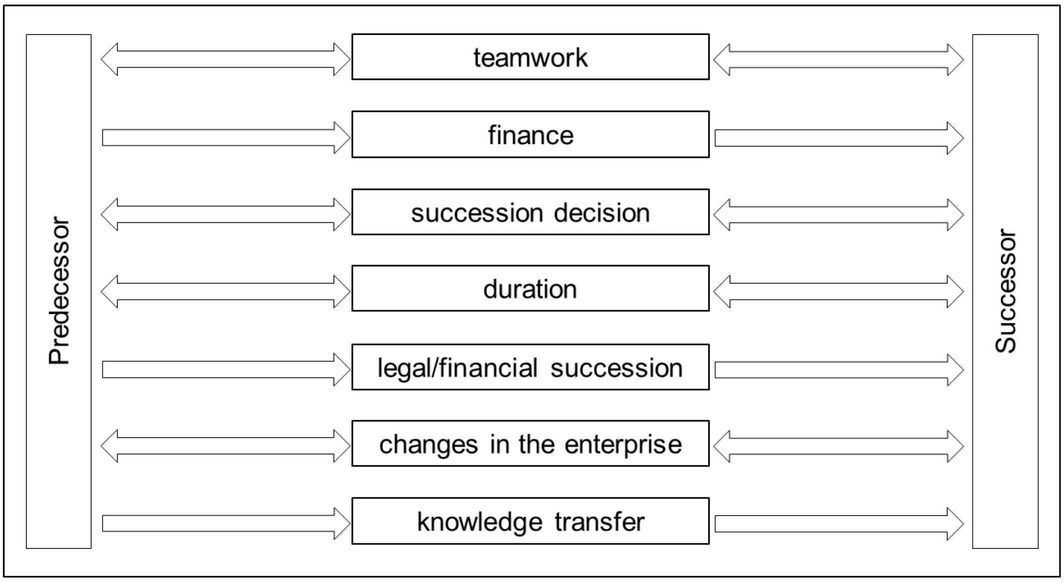
The overlap between the two contracts we defined in the theoretical section of this study results in a durante-phase. This phase is the time between joining the company to become the successor of the firm and the day of the final conclusion of the contract. During this time, different types of information asymmetries may come up. For analyzing the durante-phase of business succession, we had material from six cases and a total of 119 codings. In addition to the categories mentioned in the pre-phase of succession, other categories came up. As in the section on the phase before the first contract, we ordered the types of information asymmetries in figure 10 in the previously mentioned way to identify the most important asymmetries.

There are new identified information asymmetries about future-oriented planning requiring strategic decisions in the enterprise. In this category (*changes in the enterprise*), we observe that with more leeway in decision making, responsibility and the outlook of becoming the successor, successors start to think about changes in the organization, product portfolio or strategy. Additionally, the leadership style is a very important change. The dimensions of differences in decision-making and leadership styles are identified as information asymmetries. In some cases, the successors communicate openly that they will strategically delay some changes until they gain more ownership or the predecessor has left the company. The successor knows that the decision that he plans to make is not the same decision that the predecessor would. In addition to the view of the successor, the predecessor does not communicate his expectations of important changes needed to stay innovative. As a result, the successor is unable to react to these expectations, which could provoke a conflict.

The second new category we label *knowledge transfer*. Both parties are sensitized to the fact that knowledge has to be transferred. However, some asymmetries could be identified in the durante-phase as well. On the one hand, the expectation of the predecessor regarding the level of knowledge transfer does not coincide with the level of knowledge the successor has. We could observe that in most cases, special explicit knowledge is transferred, but general implicit knowledge - for example, names of network contacts of the pass or code words for personal computers and other important IT or bank accounts - are not transferred. On the other hand, the expectations about knowledge transfer processes are not the same. Most of the time, they are close to the thinking about what kind of knowledge is transferred. This limited knowledge transfer results in some of the previously mentioned information asymmetries, such as legal/financial decisions.

Additionally, in the categories that come up in the duration phase of succession, various directions and influencing factors of different types of information asymmetries arise. These are visualized in figure 10.

Figure 10: Information asymmetries in the durante-phase of succession



Source: Author's illustration.

We identified a change in importance of information asymmetries. Whereas in the pre-phase of business succession, *legal and financial succession* planning is identified as the most important, in the durante-phase, the expectation of *teamwork* becomes the most important. In Case 9, the perceptions about the roles of actors are extremely different. In a situation where both actors told the interviewers that they are working together and are both responsible for important decisions, the predecessor stated:

> *9.pre.: Yes, I am able to outstrip the company. For real, I do not have any decision-making authority in quotation marks.*

At the same time, the successor stated:

> *9.suc.: Sometimes he takes a back seat, but sometimes he comes to the front and decides on his own, like ordering important engines. He does it on his own account, without asking me for my opinion.*

Other characteristics of *teamwork* information asymmetries are the influence of the predecessor in general and the different types of leadership. As the predecessor starts to transfer management power, he starts to lose his own. As a result, conflicts come up that are often the result of different kinds of information, which we can evaluate as information asymmetries. The style and frequency of communication are other factors influencing this type of information asymmetry. Often, there are misconceptions because of different styles of communication and a different understanding of the information the other person has or needs. Therefore, we evaluate these information asymmetries as one, and it is influenced or produced by both actors.

Information asymmetries about the *financial* situation are more often identified in the durante-phase than in the pre-phase. It can be observed that successors may not know the key performance indices of company, the company's value or the concrete debt-to-equity ratio. The predecessors are, in most cases, sure that the successors are "informed enough" about important financial influencing factors. In this type of information asymmetry, it is clear that the predecessor is responsible for knowledge sharing. The successor could not obtain important information without the support of the predecessor. Thus, the direction of information asymmetry is from predecessor to successor.

> *14.suc: We were quite shocked at the beginning because the enterprise was financially poorly guided. (...) So, we first had to clean up quite strongly. (...) When we had a little insight, we also considered whether it is the correct decision, because the financial side was very much in disorder. So, we had to take on a lot of burdens.*

The information asymmetry, which is about the *succession decision*, is in same order as the pre-phase. Also, the characteristics are not really different. Only the possible situation where the family firm could be sold, although one or two potential candidates are identified and integrated in the company, could be underlined.

> *8.pre: "I would try to sell the company, so that it could be developed by using synergies. (...) I would also decide this against the volition of my*

children. But I do not believe that they would be against this decision, because they are realistic enough to see this situation like myself."

An interesting finding is that the type and *duration* of teamwork have to be analyzed independently. Sometimes, predecessors do not disclose their plans about when they will finally exit the family firm and transfer full management competence and ownership shares to the potential candidates. In this part of the analysis, it is interesting that the predecessor often only gives vague information about his plans. Successors have plans in mind that include the final exit of the predecessor, but in most cases, these plans do not overlap with the plans of the predecessors. The wishes or expectations of successors that the predecessor should leave the company are unknown in most of the cases because of the need for more leeway in decision making. Also, the motivations of both parties, which are linked to an expanded or limited time frame of succession, are shrouded under silence. We could also state this finding in the section below, but in the phase of working together and impending end of teamwork in management, the duration of teamwork becomes more important. In five of six cases, we can identify information asymmetries of this kind.

Close to this finding is the category we labeled *legal/financial succession*. The most important category in the pre-phase is not that important in the durante-phase. We could observe that some parts of information asymmetries are already reduced at this point in time. The type of ownership transfer is, in most cases, more often discussed, and sometimes the first parts of shares have already been transferred. The important information asymmetry during this phase is the final point in time of full ownership transfer as well as the retirement arrangement of their parents. Summarizing the current findings, we could propose that there are different kinds of information asymmetries in family businesses in the durante-phase of business succession. In addition to the above mentioned issues, we can identify conflicts and divergent expectations on education and engagement as well as unknown network contacts but with less importance or less cases, so we do not put them into the framing in this stage.

3.4.3 Information Asymmetries in the after-Phase of Business Succession

In the after-phase of business succession, we could only identify two cases that complied with the requirements. During the analysis of these two cases, we found that both actors, retrospectively as well as in the current situation, do not realize information asymmetries and are unable to identify them. One additional category was discovered: *differing views*. This category includes information asymmetries about the meaning of the family firm for the individuals, the family and the firm. For example, the family firm is evaluated as the life work of the predecessor by the successor, but the predecessor him- or herself evaluates it in another way.

> *12.suc: Of course it is, so to speak, his lifework.*
>
> *12.pre: I would not say, "It was my lifework." It was just the intention to work longer.*

According to the categories we observed in the phases before, there are hints that the successor obtained financial information after the predecessor left the company. Thus, during the transfer of full management competence and the first steps of ownership transfer, the successor did not know the financial situation at all.

> *11.suc: Many financial burdens of which I knew nothing.*

The successor calls it financial burden because he has to handle the following results of this information asymmetry. He overtakes the business with expectations that do not correspond to the real situation of the family firm. The financial situation was not as good as he had expected, so restructuring steps were needed.

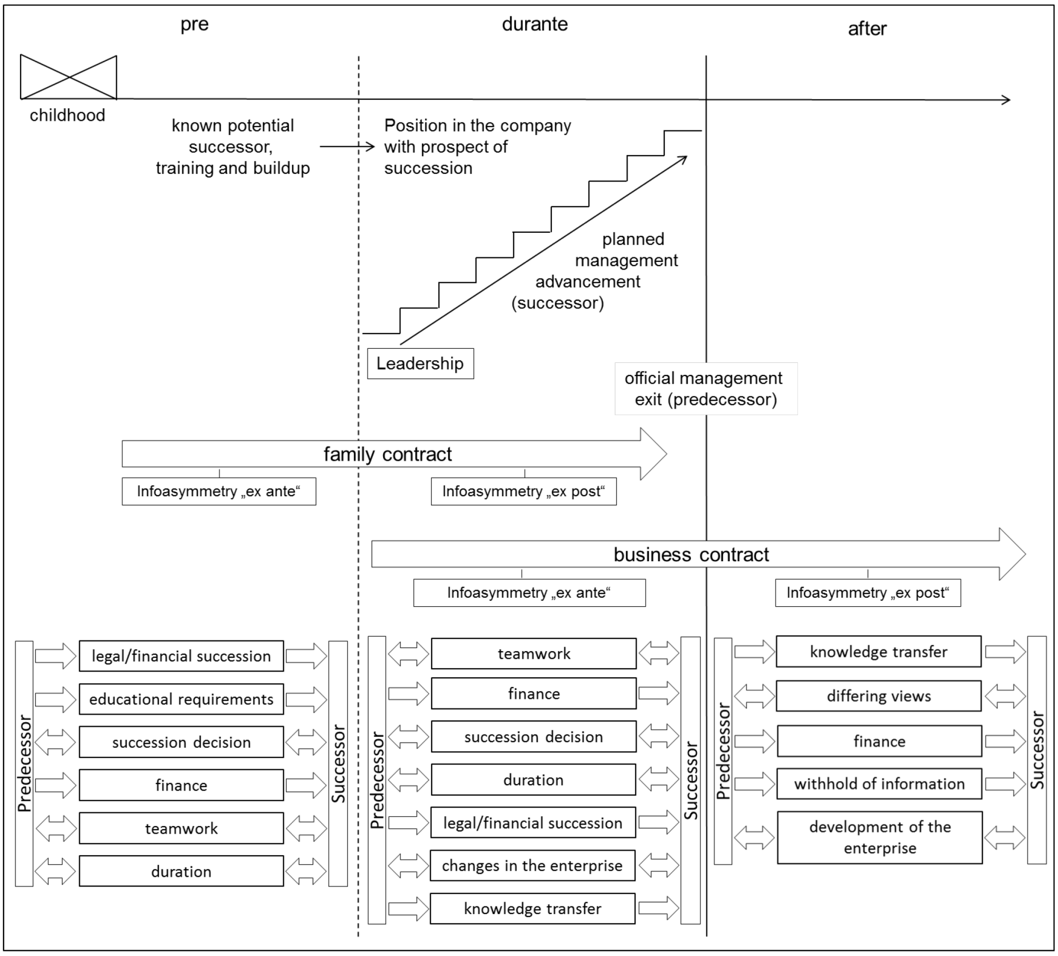
We have to underline that our analysis shows that because of social expectancy as well as cognitive complexity reduction, the interviewees were unable to mention and evaluate information asymmetries. Because the predecessor had already left the company, a comparison of both statements in many parts was hard to get or not possible.

Summarizing the current findings, we are able to propose that there exist less but still some information asymmetries. On the one hand, both parties are unable to identify and evaluate them, and on the other hand, we are able to propose that in the cases we were able to observe, the long time frame of succession allows them to reduce information asymmetries.

3.4.4 Information Asymmetries in Family internal Business Succession - an overall Model

Concluding the findings of our analysis, figure 11 summarizes our results in an overall model. Our theoretical model at the beginning of the paper, including the two different contracts in family business, remains. The data analysis also shows that there are two different contracts and divergent expectations of both actors. The contracts could be observed in different intensities, but in every case, there are hints of both. We found that information asymmetries exist in family internal business succession. It can be shown that these information asymmetries can be assigned to thematic categories, fit into the model of family business succession and ordered by their importance through their frequency of mentions. Furthermore, we show that information asymmetries exist during the entire period of succession. Moreover, information asymmetries increase over time and decrease after the durante-phase. Additionally, it can be shown that the importance of the thematic kinds of information asymmetries changes between the phases. Thus, we can show that in family firms, there are dynamics as well as processes that address information asymmetries. This study offers the first indications that family firms have their own processes for reducing information asymmetries at all stages of the succession process. We also offer deeper insights into the nurturing phase. The theoretical model illustrates a structured step-by-step planned management advancement. Of course, in our case studies, it is more or less a step-by-step approach, but there is a process. Successors have to fulfill requirements and, through them, obtain more free space for decision making over time.

Figure 11: Overall model of information asymmetries in the family internal business succession



Source: Author’s illustration.

3.5 Discussion

Business succession is a major topic in research due to its critical role in the lifecycle of an enterprise. There are many problems associated with succession, and the aim of this study was to gain a better understanding of these problems, their reasons and the whole process of family internal business succession focusing on information asymmetries at different stages of the process and in different areas – family and business. Thus, the emerging question was which kinds of information asymmetries exist in family business internal succession. Previous research suggests that there are information asymmetries in family business and that, following this, agency costs can occur (Zellweger & Kammerlander, 2015). However, it remained unclear what kinds of information asymmetries in family firms exist and what happens during the succession process. Following this, our study offers several contributions:

First, existing studies show information asymmetries about exit strategies (Dehlen et al., 2014), but information asymmetries inside successful internal succession remained unstudied. To the best knowledge of the authors, this is the first empirical study that looks for concrete information asymmetries in internal business succession. Furthermore, the study sheds light on the kinds of information asymmetries, the roles of different actors and, finally, the changes over time. This study supports the assumptions of former studies as well as conceptual considerations, that principal agent behavior in family firms exists (Lubatkin, Durand, & Ling, 2007; Schulze et al., 2001; Schulze et al., 2003; Zellweger & Kammerlander, 2015). The results match the first suggestions in the literature that agency conflicts and agency costs could occur in family businesses (Gómez-Mejía et al., 2001), and it reinforces the view that asymmetric altruism, nepotism and lack of self-control exist (Bergstrom 1989; Bernheim & Stark, 1988; Schulze et al., 2001). However, our findings show that there are much more and thematically broader information asymmetries than explained by the existing theories. Moreover, we found bidirectional information asymmetries in every phase of succession. These bidirectional information asymmetries are in line with the theoretical assumptions of Zellweger & Kammerlander (2015). However, governance structures that overcome these information asymmetries, during succession but also in general, can only be implemented when it is clear what kind of information asymmetries exist in family firms. It is important to conduct research about the reduction of agency behavior, for example, through trusted advisors (Michel & Kammerlander, 2015), or the reduction of agency costs (Zellweger & Kammerlander, 2015) but before we have to know more about the information asymmetries in family internal business succession.

Our second contribution to the literature is the development of a business succession contracting model. In our study, we propose that two different contracts are inherent in family internal business succession: the family contract and the business contract. Based on social exchange theory and legal and financial knowledge about business succession, we developed a conceptual model (Cropanzano & Mitchel, 2005; Handler, 1994; Nordqvist et al., 2013). However, the empirical investigation also underlines the existence of both contracts. Parts of the built categories are in the business context, and others are in the family context. Beyond the common belief that family firms follow a family first approach (Jaskiewicz et al., 2015b; Schulze et al., 2003), we can show that information asymmetries exist in both, the family contract and the business contract and either are able to hinder a successful succession.

The third contribution is linked to the change in information asymmetries over time. Furthermore, the existing models of family internal business succession already imply mechanisms to reduce information asymmetries. The model of Le-Breton-Miller and colleagues (2004) structures the processes and explicitly mentions mechanisms to reduce the information asymmetries we found in our study. For example, it mentions early planning and communication, a structured analysis and development of the successor's abilities and training programs or apprenticeship with explicit and tacit knowledge and social capital transfer (Le-

Breton-Miller et al., 2004), all of which can reduce some information asymmetries. We are able to identify several information asymmetries in family business and can show that these information asymmetries increase and decrease over time. This offers the first indications of inherent internal processes in family firms, which may aid the handling of information asymmetries. First measures to reduce the information asymmetries could be observed in analysis as well. Particularly in the transition phase, many people said that a long period of collaboration between successor and predecessor helps them reduce information asymmetries. In another case, the successor mentioned that he had the problem of obtaining all information from his father, and he decided to make some kind of trade with his father. He taught his father how to work with the PC and has in return received know-how and information about the firm. Additionally, the information asymmetries, which still exist after the pre-phase, and in the durante-phase, offer some interesting hints for a general understanding of family business succession. The expectation about teamwork during the durante-phase is important in the pre-phase, but it is the most important in the durante-phase. These information asymmetries are particularly linked to teamwork at the time when the predecessor starts leaving the family firm, but also the time after the final exit. These information asymmetries shed light on the behavior of predecessors who maintain a hold on the family business. Furthermore, finance is the only information asymmetry that exists in every phase. This results from the long-lasting process and the step-by-step approach of transferring shares and information that come up after succession and is realized by the successor in the after-phase. This also offers hints for former information asymmetries that are not realized.

The fourth contribution is about the awareness of information asymmetries in family firms. In most of the cases, the family members are unaware of the existence of information asymmetries. Following this, they are also unaware of the consequences of information asymmetries. For example, a consequence could be that there is no conclusion to the contract if there is too much of an information asymmetry in the pre-phase. Another possibility is that because of a too significant information asymmetry, i.e., about the financial situation in the family firm, the succession fails. The successor is unable to overcome financial challenges and preserves the family and firm because of the missing information. Following this, our study contributes to the initial ideas of governance structures or the inclusion of trusted advisors to overcome or balance information asymmetries.

Fifth, we contribute to the literature through a renewal of understanding of principal agent roles in family business succession. Usually, the predecessor is seen as the principal and the successor as the agent. This results from the final decision-making competence of the predecessor about the personal selection and the power of decision making because of holding shares over a long time. However, we investigate numerous role changes. In our study, more often, the successor is in the role of the principal, and the predecessor is the agent. One explanation of this phenomenon could be the high dependence of an internal succession for preserving the socioemotional wealth of the family (Berrone et al., 2012). Furthermore, in a limited pool of internal candidates, the predecessor is unable to choose whether the selection criterion is to be a family member (Chrisman et al., 1998). Following this, the dependence is imbalanced and changes the roles. The results from this power imbalance and the resulting information asymmetries are not part of this study and remain for further research.

3.6 Conclusion and Outlook

Our study comes with limitations that offer opportunities for further research. First, we did not have the possibility to analyze interviews regarding failed successions, which could be very profitable for the research of information asymmetries in the succession process. However, it is almost impossible to get both parties of a failed succession to participate in an interview about their conflicts. The second limitation is that we found that repeated interviews in every phase of the succession could be better for the analysis of the information asymmetries because people undervalue the asymmetries, conflicts, and problems in retrospect. For a deeper understanding and assignment of the types and consequences of information asymmetries, interviews with a deeper and closer relationship between the interview partners and with repeating interviews before, during, and after the succession would be needed. Thus, a qualitative (or quantitative) panel study is recommended for the future. Furthermore, longitudinal studies, including observations, can offer more hints about the strategies of family firms in overcoming information asymmetries. Moreover, opportunistic behavior and the results of such behavior could be analyzed more thoroughly. The awareness of information asymmetries in family internal business succession also enables a better understanding of the processes and difficulties that can occur. This can be helpful for predecessors and successors as well as for practitioners and consultants in this field.

To date, the principal agency theory has been under-represented in family internal succession research. We have shown that this theory can help explain problems, conflicts, and perhaps failed successions in this context. In the next step, an attempt should be made to more precisely typecast information asymmetries according to the classical types of the principal agency theory. Examples for the assignment of these themes were found in the interviews, such as in the case of the duration of cooperation between successor and predecessor. The information asymmetries in this category can be classified as a hidden characteristic due to the successor's unawareness of this duration, or they can be classified as a hidden intention because of a planned behavior of the predecessor or successor, or as hidden information from one or both. According to the principal agency theory, in the next step, the consequences of these types of information asymmetries, such as 'adverse selection', 'moral hazard', and 'hold-up', have to be identified. Identifying consequences and evaluating them in a scheme that is related to the theory was not possible. Nevertheless, some mentions of conflicts between predecessor and successor were found, and a few of them can also be connected with information asymmetries in the later stages of the succession process. In line with this, we found many possible information asymmetries in the interviews, especially in cases when the successor underestimates the financial obligations of the enterprise, which can be described as a hidden characteristic of the enterprise and, consequently, as an adverse selection – regarding the takeover of the business in worse conditions than expected. In other cases, the (potential) successor intends to undertake measures and changes in the family business that the predecessor would never appreciate (under any circumstances) – this could be interpreted as a hidden intention that will lead to moral hazard. This example shows that we would need more detailed information from the interviewees regarding their intentions and motivations for a closer assignment of these classical types of information asymmetries.

In further research, the identification and evaluation of the consequences of these information asymmetries could provide deeper insights into business succession processes and consequences. Finally, the research about the mechanisms to reduce information asymmetries in this framing should be analyzed based on the now better-known information asymmetries.

To conclude, our study shows that information asymmetries in family internal successions do exist and that different types at different stages in the process can be observed. The identified information asymmetries vary thematically and in their respective frequencies between the phases of succession. Our findings provide a new perspective, offer a better understanding of family internal business succession, and complement the existing theories.

The study shows that there are information asymmetries in family firms and it seems that there are inherent processes to overcome these information asymmetries. The presented study differentiates between different categories and underlines that there are categories of information asymmetries that can be located in the family business and information asymmetries that are closer to the family. Moreover, the study underlines the change of information asymmetries over time.

The pre-phase and the during-phase describe the time until the predecessor leaves the management of the family firm; the management succession takes place as a caesura. This time can be evaluated as a personnel selection process, because until this time, the potential successor has the option to leave the pool of candidates and then there is no further need for exchanging information.

The next chapter of this dissertation focuses on this process and attempts to answer the call for research about the mechanisms to reduce information asymmetries in this framework. The study focuses on management succession and the selection process of family firms before and during the succession process. The understanding that there is a principal-agent situation in family business internal succession remains. Signaling theory is used to explain the behavior of family firms in overcoming the existing information asymmetries. The exchange of information through signaling includes sending signals, getting feedback, and the possibility to adapt behavior and signals according to expectations in order to align the interests of both actors.

4 Advancing Signaling Theory: New Insights from Successor Selection in Family Businesses

ABSTRACT

Signaling theory has been used widely to explain phenomena in personnel selection processes. The present study adds to this perspective by applying signaling theory to personnel selection processes in family businesses, focusing on the selection of family internal successors for top management positions. We apply a multiple case study approach using interview data from twenty German family businesses. We find that the specific circumstances of the signaling game that we identified in family businesses, i.e., a longer timeframe, a private and a business context as signaling environment, and the presence of close personal relationships between receiver and sender, influence the signaling game. We contribute to signaling theory by investigating the context of personnel selection processes in which closely related actors are part of the signaling game.

Keywords: Family Business; Business Succession; Signaling Theory

4.1 Introduction

Scholars have extensively investigated the role of signaling in the context of personnel selection decisions (Bangerter, Roulin, & König, 2012; Bergh, Connelly, Ketchen & Shannon 2014; Connelly, Certo, Ireland, & Reutzel, 2011). Information asymmetries exist in personnel selection decisions and must be reduced through signaling, screening and self-selection (Akerlof, 1970; Spence, 1973; Stiglitz, 1975). To identify the candidate who best matches the requirements of the position, one or several candidates are evaluated. To provide more information regarding their productivity and qualities, job applicants send signals to the job-offering organization. These signals must reach the recipient and must be evaluated and interpreted. By choosing an individual for further rounds in the selection process or finally offering the position, individuals understand if signals work or do not work (are successful or not). If both parties remain in the signaling game and the final decision has not been made, the signaler can adapt his signaling strategy after having received feedback that implies earning other or more signals to specify the signal or to quit the game. The context of these actions is referred to as the signaling environment. In addition to signaling, there exist other instruments to select the best-matched candidates for a job position, e.g., screening refers to actions taken by the organization to resolve information asymmetries. For example, organizations could offer job candidates a menu of contracts or one specific contract; the choice of a specific contract reveals the candidate's self-assessment of his or her own productivity and, thus, helps to check out the tacit information of candidates and to decrease the adverse selection problem. Keeping in mind these other instruments, the paper focuses on signaling because it is one of the most common instruments in general personnel economics and one of the least analyzed concepts regarding family business to fit the successor position.

Selecting a family internal successor for a top management position is a personnel selection decision. Nevertheless, the situation in family businesses when selecting a successor differs strongly from other personnel selection processes. First, the selection process is influenced by business goals and family goals (Jaskiewicz et al., 2015b). Second, the preference for family members limits the pool of candidates (Habbershon, 2006; Jaskiewicz, Uhlenbruck, Balkin, & Reay, 2013; Memili, Welsh, & Luthans, 2013; Salvato et al., 2012; Zellweger, Nason, Nordqvist, & Brush, 2013). Third, the time frame of selection is not limited to a few months, beginning with a job advertisement and ending with the selection decision, but can take months or years. Hence, because of the focus on family internal candidates for successor positions and, thus, a specific recruiting environment, the process requires specific selection instruments.

Family internal succession[3] is preferred in family businesses (Wiklund et al., 2013), but currently, it is not clear how family firms address the situation of selecting a family internal successor. It is obvious that family candidates have a very close relationship with the people who select them and that a long time frame for selection is inherent. As a result, there is a very specific and long-term-oriented situation that could offer new insights about signaling in general. As a result, we ask, *how does signaling proceed in family internal successor selection in family firms? What can we learn from signaling during the family internal succession process for signaling theory in general?*

We used interview data from twenty heterogeneous German family businesses to address this research gap by investigating whether and how signaling occurs in the process of internal successor selection. Analyzing the selection process in family businesses through the theoretical lens of signaling theory offers the opportunity to systematically investigate internal processes and develop insights into recruiting practices in family businesses. The present research seeks to shed light on these processes that have been regarded as inherently unprofessional by scholars (Chrisman, Sharma, Steier, & Chua, 2013).

[3] In the remainder of the paper we understand family internal succession by internal succession

The present paper contributes to different streams of literature. First, we contribute to the literature focusing on signaling in personnel selection processes. Bangerter, Roulin, and König (2012) have defined personnel selection processes as a signaling game. In their conceptual work, they highlight the role of adaptive processes between applicants and organizations. We add to this work by examining the consequences imposed on the process by the specific situation that occurs when personal bonds are present between applicants and the selecting organization, which does not occur only in family businesses (e.g., selection decisions in non-family firms where the applicant and the selecting manager also have a private relationship, for example, as friends or relatives). As we will show, consequences of these personal relationships are the longer time frame of the signaling game, candidates becoming part of the pool against their will, and a change of meaning and value of specific types of signals. Analyzing these pecularities and their consequences offers a new perspective on signaling in personnel selection processes.

Second, we contribute to the family business literature by shedding more light on the family internal successor selection processes. The assumption that successor selection is based primarily on mechanisms such as nepotism (Chrisman, Chua, Pearson, & Barnett, 2012; Collin & Ahlberg, 2012; Salvato et al., 2012) has hindered the development of research on how the selection process occurs in family business practice. By systematically applying signaling theory to the successor selection process in family businesses, we provide insights into not only the selection process as a whole but also into its constituent components. According to signaling theory, different types of signals exist that play different roles in the signaling game. The present study distinguishes among these signals within family businesses and shows how the signals are sent and perceived.

This paper is structured in the following manner: First, we describe the methodological approach and data analysis. Because of the nature of the research question, attempting to explain a new phenomenon in family business, we chose a qualitative approach (Eisenhardt, 1989). Specifically, we conducted multiple case studies in a set of family businesses using data from 20 firms and 57 interviews. As a result, we offer two types of findings: a process model of signaling of internal successor selection in family businesses and theoretical implications for signaling theory in general that can be derived from investigating signaling processes in the context of family businesses. The paper closes with a discussion of the study's implications, limitations and avenues for future research.

4.2 Method

Our goal is to gain in-depth insights into the selection process of family internal successors to provide new insights for signaling theory and family business research. We chose to use an inductive, qualitative research design because we describe a phenomenon in a real-life context – the recruiting and selection process – and aim to explain *how* this phenomenon evolves. We selected an exploratory multiple case study design following Eisenhardt (1989) and Yin (1984).

Only family businesses were included in the sample. We define family business according to the definition and criteria of Chua, Chrisman, and Sharma (1999): First, at least 50% of a business must be owned by one or several families. Second, one or more family members must be involved in management or have influence on strategic decisions and development. Third, a business succession process must have previously occurred, is occurring or is in the planning stage. Additionally, before every interview, the interviewee was asked whether the firm was a family firm. All interviewees stated that the firm was a family firm.

We gathered information in semi-structured interviews, which were transliterated, coded and analyzed with MAXQDA, a software for analyzing qualitative data. Two of the authors conducted the interviews from 2009 to 2013. The interviews with the family members yielded 823 pages of text, 1.5 spaced. The interviews took an average of 55 minutes, ranging from 35 to 105 minutes.

After beginning with an *a priori* definition of the research questions, we selected cases for this study. Eisenhardt (1989) suggested a limited sample to develop deep insights into processes. Following this recommendation in the first step, we conducted 12 case studies with 39 interviews. We chose various cases regarding the stage of succession and the generation stage and focused on different industries to obtain broad insight into different stages and situations in family businesses. During this process of crafting instruments and protocols and entering the field by conducting interviews, further questions arose regarding the generation, stage of succession and legal structure. For this reason, we gathered more case studies (8 Cases) to integrate these context factors in our research. Because only 13% of family businesses survive until the third generation, the second generation dominated the dataset. We decided to omit an industry bias and analyze signaling in general. This approach is consistent with Eisenhardt (1989) because overlapping data analysis and data collection allows flexible data collection, and Eisenhardt (1989) emphasized "a key feature of theory-building case research is the freedom to make adjustments during the data collection process" (p. 539). In each case included in the study, at least two individuals (predecessor and successor) were interviewed. In most cases, more than two interviews were conducted. In addition to the predecessor and successors, we interviewed spouses of predecessors, other potential candidates and core employees to include different perspectives on the selection process in our analysis.

All interviews began with clarification of the roles of the interviewees in the succession process. Further interview questions were related to selection criteria, the time frame of the selection process, the pool of candidates, and education and training prior to the business succession process. Table 4 presents an overview of the cases included in the present study.

Table 4: Overview case studies

Company	1	2	3	4	5	6	7	8	9	10
Industry	Chemical industry	Flower business	Heating contractor	Building company	Pharmacy	Painter	Gas, water, heating installer	Food retailing	Hotel and catering	Industrial supplier
Legal structure	Estmt: SP, Change to LLC	Estmt: SP, Change to Holding and LLC	Estmt: SP, Change to LLC	Estmt: SP, Change to LLC	GP	GP	LP	Estmt: SP, Change to LLC and LP	LLC and LP	LLC
Number of Employees	35	1700	80	20	9	7	4	1100	35	110
No. of interviews	4	2	4	2	2	5	4	3	2	2
Generation	2	2	2	2	2	5	4	2	2	2
Potential Candidates	Son 1, Son 2	Son 1, Son 2, Daughter	Son, Daughter	Son, Daughter1, Daughter 2	Son 1, Son 2, Dauther	Son 1, Son 2, Son 3	Son 1, Daughter 1, Son 2	Son 1, Son 2	Son, external candidate	Son
Status of Succession	Planned	Completed	Planned	Completed	Started	Completed / Next Succ. planned	In progress	Almost completed	Completed	Almost completed

Company	11	12	13	14	15	16	17	18	19	20
Industry	Hotel and catering	Mfg. of machines	Electrical appliances	Food retailing	Publishing	Mfg. industry	Media industry	Meat processing	Hotel and catering	Sale of motor vehicles
Legal structure	SP	LLC	n/s	n/s	LLC	LLC and LP	LLC	Estmt: SP, Change to LP	GP	LLC
Number of Employees	11	1865	18000	120	9	28	35	25	37	16
No. of interviews	6	3	2	4	2	2	2	2	2	3
Generation	5	3	4	5	5	4	2	3	3	2
Potential Candidates	Son 1, Son 2, Son 3	Son, Daughter	Son 1, Son 2, Daughter 1, various cousins	Son, Daughter	Daughter, external Candidates	Son, Daughter	Son 1, Son 2	Son 1, Son 2	Son, Daughter	Son, Daughter 1, Daughter 2
Status of Succession	Planned	In progress	In progress	In progress	Almost completed	In progress	In progress	In progress	Completed	In progress

Estmt = Establishment; LLC = Limited Liability; LP = Limited Partnership; SP = Sole Properietorship; GP = General Partnership; n/s = not specified

The data were analyzed after conducting 12 of the cases. In this way, we could shape the interviews and were able to decide what kind of additional cases we needed for our sample of 20 cases. We also reanalyzed the data based on our cumulative learning at the end of the collection process. We followed a three-stage analysis process: first, a within-case analysis, second, a cross-case comparison and, finally, a theory-building stage.

We iteratively analyzed the qualitative data based on the basic assumptions and concepts of signaling theory and the theoretical understanding of family internal succession and considering all conceptual components of the signaling process. Our first-order concepts follow the language of the participants (e.g., "communication at the kitchen table"). After this, we analyzed the different first-order categories and identified links between the different categories, for example, "communication at the kitchen table," "communication during lunch" and "periodically jour fix," offer information about the signaling context. We group the categories together into second-order themes following the example above: "signaling in family context" and "signaling in business context." All these inductive categories and themes were organized following the elements of signaling theory and the result in the overarching categories *Signaling Environment* (including the time frame), *Signaler*, *Receiver*, *Feedback* and *Signals*.

In the first stage, two of the authors analyzed every case autonomously to become intimately familiar with each case. This process was a result of the need to identify information asymmetries, individual feedback situations and industry- or size-related needs for different signals. In addition, family cohesion can always influence the signaling game. To exceed initial impressions, a subsequent cross-case analysis was conducted, enabling us to develop overall categories as a basis for developing propositions. During this process, the overall categories and some anchor coding were continuously discussed with the other authors. This discussion resulted in the third stage of analysis: the theory-building stage. The iterative process between data and theory showed that the present data provide insights on signaling in family businesses, which can also be partly applied to a more general context by contributing to signaling theory in general. An overall model of signaling in family business is derived from the data and is presented in figure 12. A section follows presenting the implications of the findings for the application of signaling theory in personnel selection situations beyond the family business context.

4.3 Signaling in Family Businesses

The first finding results in an overall model of signaling in family businesses. The first step clarifies whether signaling theory fits to family business internal succession. Although the interests of family owners and applicants internal or external to the family may overlap to a greater degree than the interests of owners and managers in non-family businesses, asymmetric altruism could promote economic agency costs through the difficulty of enforcing contracts and biased evaluations of managers' contributions to firm performance (Schulze et al., 2001). Agency problems are observable in family businesses (Lubatkin et al., 2007; Lubatkin, Schulze, Ling, & Dino, 2005; Miller, Le Breton-Miller, & Lester 2011; Schulze et al., 2001; Schulze et al., 2003), different forms of goal setting exist (Jaskiewicz et al., 2015b) and, hence, information asymmetries occur (Schulze et al., 2001; Dehlen et al., 2014).

The basic assumption of the present study is that information asymmetries exist in family businesses. We based our analysis on the findings of Dehlen, Zellweger, Kammerlander, and Halter (2014), who identified four different types of information asymmetries that can occur in family business succession. According to these findings, information asymmetries are inherent to the selection processes. Signaling and a related, relatively structured selection process could be a way to reduce these asymmetries and select a successor.

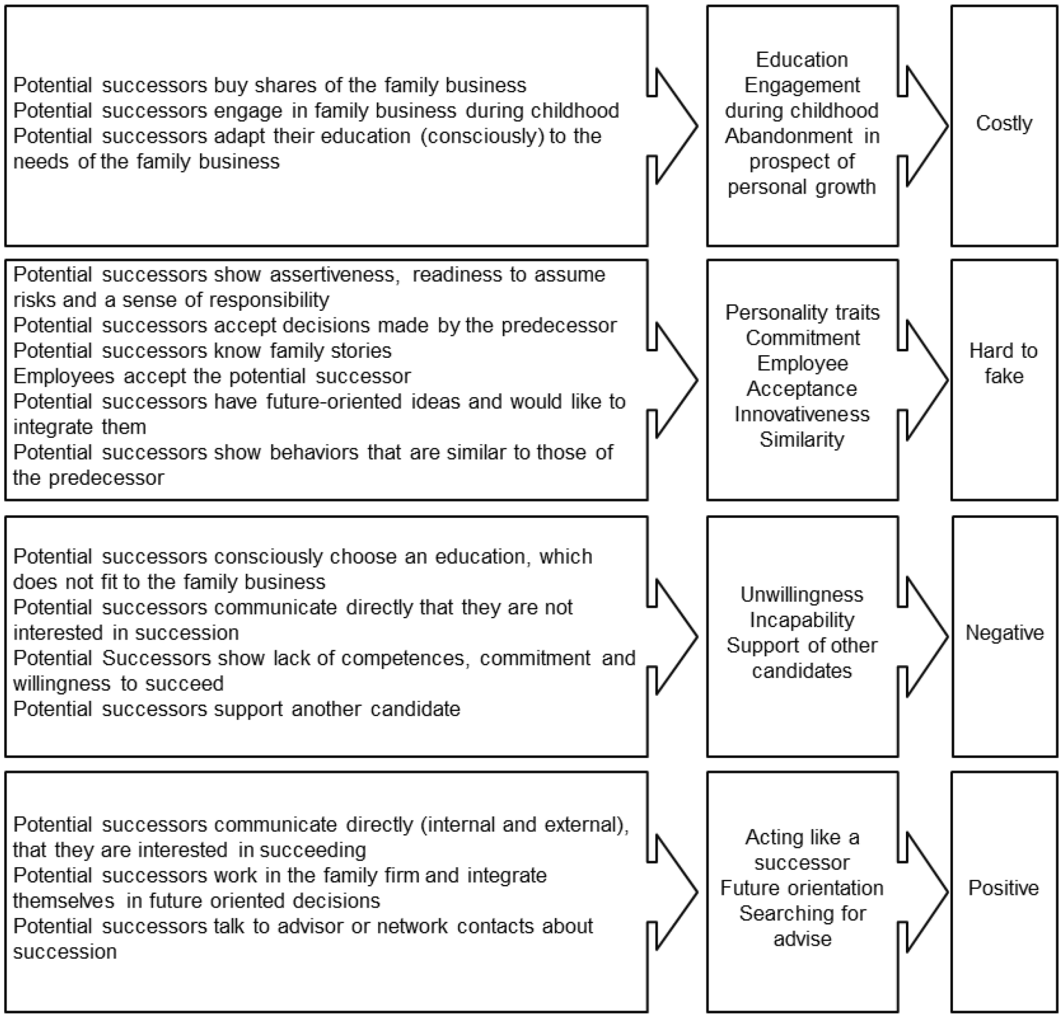
For the overall model, the actors in the signaling game should be clarified. In the tradition of signaling research in the context of personnel selection, the applicant is the signaler having more information on his or her productivity and qualities, and the organization/predecessor is the receiver (Akerlof, 1970; Spence, 1973; Stiglitz, 1975). Following this convention, we define the potential successor as the signaler and the predecessor as the receiver.

4.3.1 Signals

Signals must be observable; however, beyond mere observability, the fit of signals plays an important role. Connelly et al., (2011) defined the signal fit as "the extent to which the signal is correlated with unobservable quality" (p 53). Scholars differentiate between costly signals and hard-to-fake signals (Bangerter et al., 2012). Hard-to-fake signals are beyond conscious control. Work samples and the results of ability tests are examples of this type of signal (Bangerter et al., 2012). Although ability tests, such as intelligence tests, may be problematic in family businesses, work samples can be obtained easily. For example, potential internal successors could send positive, hard-to-fake signals by working in the family business in their free time at a young age.

In the interviews, we identified different types of signals sent by the potential successors. Figure 12 provides an overview of how different categories of signals were derived from the interview data. In the following, we present our insights first for costly and hard-to-fake signals and, then, for negative and positive signals.

Figure 12: Overview of categories used to identify different types of signals



Source: Author’s illustration.

4.3.2 Costly and Hard-to-Fake Signals

Costly signals such as education or job experience require applicants to invest resources to acquire and display such signals (Bangerter et al., 2012). Other potential successors may not have the ability to acquire these signals, leading to higher costs to earn the signal or leading to the successor not being able to earn the costly signals at all. In family businesses, costs may also include engagement during childhood and abandoning prospects for personal growth. The fit of education to the company, the abandoning of career options, and the willingness to undertake an internal training program are the most significant costly signals that we identified.

> *Successor 8: "After my training as a retail salesman, I also did training as a butcher, as well as a certified business management specialist and, finally, the master butcher training. Currently, I have held all possible management positions in the company. First, store manager, then dispatch manager to works manager. I did anything and was promoted step by step."*

Predecessor 1 explains that the first son chose a technical education and the second son chose business administration. Following this, he states,

> *Predecessor 1: "Both my sons are qualified because they know the company. Beyond that, they are qualified because of their theoretical knowledge, which they acquired during their current studies."*

Formal education plays a particularly important role in signaling the will and the qualifications to succeed.

> *Predecessor 19[4]: "Our daughter is a nutrition scientist. Our company specializes in nutrition. So she has the ideal education."*

> *Successor 19: "My relationship to the company (qualifies me for*

[4] Numbers in front of the quotes refer to the identifying numbers of the cases presented in Table 1.

> *succession). Furthermore, my professional qualifications are health-oriented, and my studies in nutrition science fit the company, as well as my work experience in another company in which I also had personnel responsibility."*

Additionally, in other interviews, predecessor 19 and successor 19 underline that the process of choosing this education and the results of the education (e.g., grades, opportunities in the industry) were relevant for the selection and the integration process.

Hard-to-fake signals are beyond conscious control. Work samples and the results of ability tests are examples of this type of signal (Bangerter et al., 2012). To identify hard-to-fake signals, we screened our twenty case studies for active reports and observations of signals. In the following, the categories of hard-to-fake signals are arranged according to the frequency of their occurrence.

Table 5 shows categories of hard-to-fake signals, which we have identified most frequently in our dataset.

Table 5: Overview of hard-to-fake categories

Number of Codings	Category	Anchor
23	**Personality traits** Assertiveness Readiness to assume risks Sense of responsibility	Predecessor 11: "Reliability in, definitely. I am looking for fundamental traits, which result from upbringing. These are the basics you need, also as an employee. Punctuality, reliability, honesty, something like this. Everything else will come in the end. I can observe this in my son." Predecessor 69: "Sometimes, we take risks. We decided on and introduced a new process. I was not 100% convinced. But we tried, and surprisingly, after seven months, we earned money with it. For me, it was a surprise. For him, it was always clear."
22	**Commitment** Knowledge of family stories Cooperation with predecessor	Why do you think your daughter is qualified to succeed? Predecessor 60: "Because she is willing to do it." Predecessor 8: "My son asked me at one time. He had the chance to start a career in another company and asked me what will happen with the family firm, with the family, how we think about the future. Because he would like to know if I think it would be better that he integrates himself in the family firm to grow with the company and take the chance to work with me and my wife. This is how it was at that time when he started working in the company."
19	**Employee acceptance**	Predecessor 10: "16, 17, 18 years old, running around here, and well, he has, of course, now, I would say, gotten started as CEO, which of course was announced, no question about that, but here and there was an acceptance problem. But I think that has now neutralized on the time axis." Predecessor 8: "I think it is normal that the junior needs a little time to be accepted by everybody. But it was no big deal because we regulated the process. There was no power struggle between us. So it was easier."
18	**Innovativeness**	Predecessor 2: "Son #1 is innovative and has new ideas. He is permanently searching for extensions of our product portfolio."
10	**Similarity**	Do you think that you and your successor have the same vision for the future of the company? Predecessor 76: "Yes, this is what I think. We are living the same future, and we know where we want to go."

Personality traits (Borghans, Duckworth, Heckman, & Ter Weel, 2008; Goldberg 1993) may be regarded as indices according Spence (1973) because they refer to the unalterable characteristics of an individual. In our case, we do not refer to inalterable traits, but rather to observable actions that provide information regarding unobservable attributes and likely outcomes (Bergh et al., 2014; Spence 1973), which indicate these underlying personality traits. We focus on the voluntary display of actions that can be influenced and changed by individuals instead of focusing directly on the underlying unalterable traits; thus, we interpret the display of personality traits as important hard-to-fake signals.

Predecessors observe the potential successor's behavior and interpret it in terms of personality traits. When receivers told stories regarding previous decisions, the successor interpreted those stories as important for selection. Within this cluster of signals, demonstrating *assertiveness*, *readiness to assume risks* and a *sense of responsibility* appear to be the most important subcategories. The second category we developed is *commitment*. Family business research observed that commitment to family and the family business is an important attribute of potential successors (Sharma & Irving, 2005). We integrated observations of *told family stories* and the *actively desired cooperation* with the predecessor. Potential successors demonstrate their commitment and willingness to succeed by questioning the predecessor about the business and being engaged within the business. Potential successors often disclaim higher salaries in different situations during the succession process: when beginning hands-on training in the firm, when moving through different positions within the company and during the negotiation process for the job conditions within the family business.

> *Interviewer: "Do you have any idea how much you would like to earn?"*
>
> *Successor 1: "How high or low our salaries will be depends on the circumstances. But, compared to the industry average, we will start with a lower salary."*

This behavior could also be interpreted as opportunity costs. In this case, disclaiming higher salaries had to be interpreted as a costly signal. We observed that in cases in which internal successors displayed this type of signal, the signal was interpreted as an indicator of commitment to the firm and, hence, may have been regarded as a hard-to-fake signal. This abandonment of higher wages is understood as a prerequisite for the sustainability of the family business. By disclaiming higher wages, potential successors assure not only their own income but also the income of other family members in the company and the sustainability of the company in general. Hence, disclaiming higher wages is regarded as a sign of commitment to the family business, which goes beyond the individual costs linked to disclaiming higher wages. As a result of this context analysis, we rank commitment higher than opportunity costs and define commitment as a hard-to-fake signal.

We did not identify subcategories for the category of employee acceptance. In the majority of the interviews, the interviewer actively asked questions related to the acceptance of the potential successor by the employees. Nearly all predecessors are able to evaluate the situation in the company, which provides further evidence that predecessors actively search for this type of signal and use this type of signal in making their decisions.

Integrating new processes and products shows innovativeness. Most predecessors evaluate ideas or measures to improve the company by the potential successor as positive signals. Particularly when the business model requires innovation to remain successful, predecessors are actively informed of a successor's new ideas during the succession process.

Similarity is also a significant hard-to-fake signal. Particularly in cases of management succession, similarity in management decisions is important. Potential successors seek to manage the company in the same manner as the predecessor did. In this case, they voluntarily limit their field of possible decisions. This manner of showing commitment often includes the potential successor accepting important strategic decisions by the predecessor.

> *Interviewer: "What do you think, which kind of goals does your father have regarding the succession?"*
>
> *Successor 3: "I think that we are doing it in the same way or better than he did it."*
>
> *Interviewer: "Who has the last word when it comes to strategic and important operative decisions?"*
>
> *Successor 12: "The boss (refers to the predecessor). Yes, it is." (smiles)*
>
> *Predecessor 12: "My strategic goal is to become the technological world market leader. We are on our way. Our image in the market has changed, and I think my kids have the same intention. I think they have exactly the same idea of our future."*

Work samples are hard-to-fake signals that can be used to assess the abilities and commitment of employees (Bangerter et al., 2012), which is also true for family businesses. However, the time frame in which this type of signal is sent is much less restricted than in other constellations. In most cases, potential internal successors send those signals by working in the company in their free time and beginning at a young age. Potential successors perform internships in the family firm or in firms in the same industry, often join network parties and are interested in network partners of the family business.

4.3.3 Positive and negative Signals

To become part of the pool of potential successors, individuals simply have to be born into the family that owns the firm. To remain in the pool is more challenging. Positive signals can open the door to becoming part of the pool, to remaining in the pool and to becoming the final successor. However, negative signals also exist. Negative signals can be sent passively, indicating that the potential successor is not able to succeed. Additionally, they can be sent actively to communicate that the potential successor is not willing to succeed. Choosing an education that obviously has no fit with the family business was the negative signal we identified most often within the case studies. Becoming educated in areas that do not fit with the company and limited or no engagement in the family business are the most common negative signals we identified. For example, one of three potential successors of a car dealer chose to study journalism. The internal successor and the predecessor reported that this was the time when it became obvious that this daughter was not interested in succession.

Signaling negative information, i.e., signaling low quality or a low level of ability, is generally not a focus of research on signaling in personnel selection processes. In succession processes, sending negative signals may play an important role. Potential successors who are not willing *and* able to succeed may send signals hoping to be excluded from the pool of candidates. In the case of a potential successor who is able but *not willing* to succeed, cheating negative signals may occur. Potential successors could send signals indicating that they are not able to succeed (Steier & Miller, 2010) even though they are. In Case 6, for example, the oldest son began to study business administration in the 1990s and interrupted his studies to become a professional poker player. By doing so, he made clear that he was not interested in succession. After his time as a professional poker player, he began to receive an education in an industry similar to the industry of the family firm. Currently, he argues that he has to finish this education and start a career in this industry and that his younger brother is closer to the family firm. For this reason, the younger brother fits better and should succeed. However, the older son states that he would succeed if an emergency occurred. Therefore, in this case the older son would be able to succeed but sent signals that he is not able to do so from his point of view at different times. As a result, the family decided that the younger son would become the successor.

Additionally, some potential candidates explicitly communicate quite early that they are not interested in succession.

> *Predecessor 15: "I had my son A on the list for this, but, then, he said, 'Hmmm, actually I feel more comfortable at company B.' And then, I said, 'So then stay there, and this is wonderful.'"*

Another behavior in family firms we identified and categorized as negative signal is the active support of another sibling who is willing to succeed. In other cases, potential successors who are not willing to succeed show gratitude to the ultimate successor for succeeding. This actively communicated gratitude and the support of this candidate can be evaluated as a negative signal for themselves as successors. In addition, these actors show that they do not have insights in the family firm or an overview about the future strategic direction. Also a negative signal is the spatial distance between potential candidates in the family firm. Candidates who were interested come back to the region where the family firm is located; candidates who were not interested in succession stay further away or prefer to remain in different regions.

> *Successor 6: The most logical case would be that my brother succeeds because his abilities will be matured up to this point in way that he could do it. I couldn't. I couldn't at the moment. Leading the company would ask too much of me at the moment. I do not have the experience that I would need to lead the company.*
>
> *Interviewer: "Do you have any other children who could be potential successors?"*
>
> *Predecessor 4: "Yes, my oldest son works as a tax consultant. My daughter has nothing to do with these things. She lives away also. She lives in X."*
>
> *Interviewer: "So she doesn't want to?"*
>
> *Predecessor 4: "No, not at all. She works in healthcare and has really*

nothing to do with these kinds of things."

Successor 4: "If they (his sisters) had been involved, I would not have done it. The one sister wanted to study architecture but then moved to healthcare. I think, due to her nature, she also would not have been able to do it."

4.3.4 The Signaling Environment

There has to be a place where signaling takes place, that is, where signals are sent and received. According to signaling theory, this place is the signaling environment. The signaling environment affects the extent to which signaling can reduce information asymmetries (Connelly et al., 2011; Rynes, Bretz, & Gerhart, 1991). In family businesses, there are two systems in which the predecessor and the successor operate: the family system and the business system (Tagiuri & Davis, 1996). Together, the systems build the signaling environment. We observed that, in every case, a pool of potential candidates existed, including relatives and candidates who were not in the direct bloodline.

Analyzing the stories predecessors told about the childhood of potential successors enabled us to identify several major themes. Stories were told about the early childhood of potential successors with reference to potential succession in the family business. Predecessors reported talking with the potential successors regarding the family business, the role the family business played within the family, and how the potential successors showed interest in the family business. There were also stories regarding children who filled boxes with candy as advertising giveaways or teenagers who washed firm cars in their leisure time. In the majority of our cases, we could observe stories and anecdotes regarding the childhood of every potential candidate.

Predecessor 3: "My daughter is a type of a salesperson. She impressed me once. When she was a little girl, eleven years old, she went on a stage and said, 'Ladies and Gentlemen,' and the audience was quiet. When I do such

> *things, people will continue chatting. This is the truth. But there are people who are able to fascinate other people. And my daughter is able to do this."*
>
> *Successor 14: "When I was a child, I filled boxes with candy as advertising giveaways for Christmas."*
>
> *Successor 5: "When I was a child, they told me that I could have my father's job in the future."*

Because predecessor and potential successors have generally known one another since the birth of the potential successor, signals can be sent and received from that early point in time. However, during (early) childhood, it is quite likely that the family roles (e.g., parent and child) dominate the relationship and that potential successors are not part of the business context. Moreover, at this young age, successors cannot send signals actively; only unintendedly. To explain the relevance of this early phase of the potential successor's life within the signaling game, we focused on the signaling environment. Within family businesses, there is an overlap between family and business contexts (Tagiuri & Davis, 1996). Hence, predecessors and potential successors interact in both environments and may potentially use both environments to exchange signals. Therefore, we asked the interviewees about the context of selection, the places in which discussions regarding potential candidates occurred and the points in time when signals could be sent and received.

In the early years of a potential successor's life, the potential successor and predecessor interact more frequently within the family than within the business environment. Predecessors spoke about the hobbies of their children that fit the company. In addition, grades in school (e.g., math in technology-driven companies) were mentioned and interpreted as signals. Predecessors compare potential successors based on these types of signals when assessing their qualifications and willingness to succeed. Furthermore, we conclude that predecessors identify signals in both environments and that the focus moves from the family context to the business context over time, even when their children produced these signals mostly without intention. However, these activities or grades were interpreted as signals by the predecessors.

As a result of these findings, we were interested in whether the business system replaces the family system as the signaling environment over time. We observed that this phenomenon does not occur; through discussions at the kitchen table, discussions with spouses regarding the business and potential successors, and through business contacts at family parties, both systems constantly overlap. Thus, it is possible to send and receive signals in both contexts.

> *Predecessor 10: "We talk. Most of the time, we sit together in the evening or in the early morning before the workday starts and talk about the things we have to do this day and where conflicts could arise. And we also do a short wrap-up session in the evenings."*
>
> *Successor 12: "I started working in the company occasionally when I was 15. During the first four years, I fetched brochures from a shelf and put them together. That was it. After those four years, I was allowed to perforate them."*
>
> *Predecessor 12: "He worked in the company and earned his pocket money there during school and university studies. He worked in storage, as well as the office. He passed through different areas of the company, and he suffered the pressure of the company during childhood, and I think he acquired knowledge during this time."*

A developmental process turns a potential successor from a family member into a business member as the information flow expands. The signaling environment is larger than other signaling games in the context of personnel selection decisions.

4.3.5 The Time Frame of Signaling

Next to the definition of *where* signaling takes place, the definition of *when* signaling takes place is important. In this study, we ask when the signaling game in a family business begins and when it ends. It ends when the personnel selection decision of the predecessor regarding the successor in the management position is made. In family business succession, management transfer is an important step in the succession process (Handler, 1994; Le Breton-Miller et al., 2004; Nordqvist et al., 2013). It affects the business, including strategic decisions, and is an important signal to external stakeholders (Barach et al., 1988). The decision of who will succeed in management and, most likely, in ownership is an important sign of confidence in the chosen successor (Dunn, 1999). In the present study, we therefore define the point in time at which a decision regarding management transfer is made as the end of the signaling game. Interviewees described situations in which the predecessor told every family member at the kitchen table that his offspring would be the successor. In other situations, decisions were disclosed by communicating the name of the successor to key employees.

The selection event can be initialized in different ways. The predecessor may be the main (or the only) force initiating this event. Our data show that although the predecessor is in a position to dominate this component of the selection process, other forces nevertheless play important roles. In several cases investigated, the potential successors were the drivers initiating the selection event. We observed different motivations of potential successors to accelerate the selection decision, including the goal of being better able to plan their educations, careers, and personal lives.

> *Successor 12: "I know that the transfer from the first to the second generation passed with a lot of controversy. Also with an ultimatum: 'If you don't give it to me now, I will leave.'"*

The power potential successors have in accelerating the selection process results from a reduced pool of internal candidates. If there is a preference for internal candidates for succession, the pool is limited anyway. Furthermore, we observed that if a family business has an internal pool, this pool is reduced over time by both potential successors and predecessors. Several candidates are actively integrated into the business context, whereas others leave the pool either of their own will or because of their not being perceived as qualified successors.

Hence, if there is the wish to choose an internal successor and the pool is reduced over time, the pressure to arrive at a decision increases. The predecessor depends increasingly on the candidates left in the pool who are willing to succeed. By not deciding who will succeed, the predecessor runs the risk that qualified candidates will voluntarily leave the pool, e.g., by taking on other career opportunities, and in the end, no candidates are left. This situation works as an ultimatum. On one hand, this situation forces potential successors to signal; conversely, potential successors are offered the opportunity to initiate the selection event individually.

In addition to individuals, the company itself can initiate the selection event. This results primarily from a specific need imposed by external factors, e.g., a staff shortage in the company.

> *Successor 4: "Then, there were problems in the company. My father had conflicts with his general manager. The general manager had a heart attack or several heart attacks. I am not sure what exactly happened. After this, my father also fell ill. In these situations, mothers call to come back."*

In cases of a lack of key employees in the company, potential successors are asked to join the firm earlier than they had planned.

> *Successor 13: "In my case, I would have preferred to join the company later because I had the job of my dreams. I earned more money, I had opportunities to develop my own career, I was happy. Until today, I am talking about us, when I talk about this company. I had so much fun at this*

> *firm. So I did not come back with a good feeling when my father asked me to because I was happy where I was."*

Unplanned successions because of the death or illness of the predecessor are also situations in which there is no direct and active decision of the predecessor. The decision arises from necessity rather than from the free will of an individual or group of individuals. In this case, the company initiates the selection event.

> *Successor 4: "To be honest, I didn't see a big challenge. The challenge was when he was in the hospital and said, 'I cannot come back in the company.' I left the room and said to my girlfriend, 'Now I will go the whole hog; you will have to get used to it. I will now have to take over the firm.' This is when the decision was made, within minutes. There was no choice. And if he had stayed in the company until now, I would not be here anymore. I am nearly sure of that.'"*

4.4 A Process Model of Signaling in Successor Selection in Family Businesses

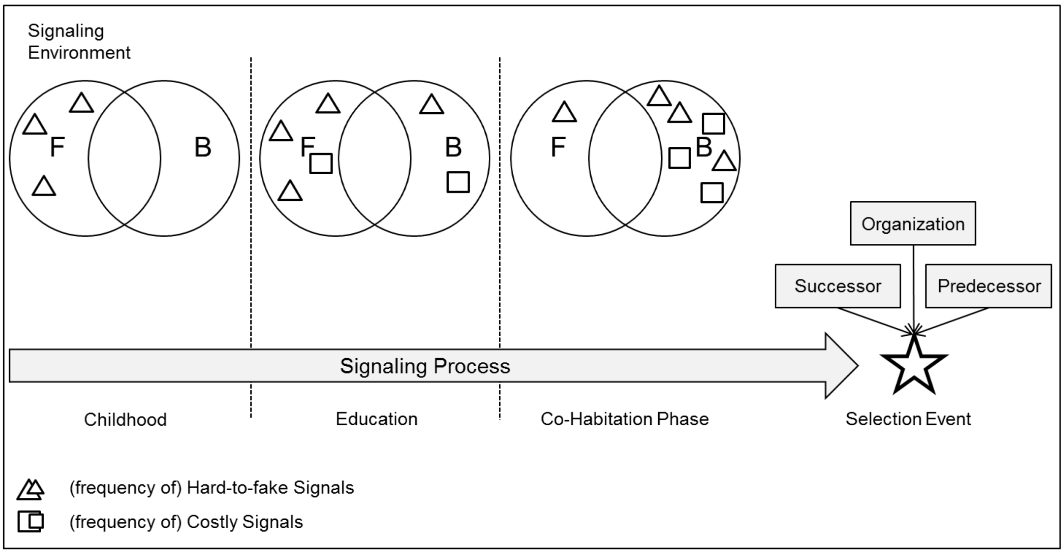
After having identified the signals sent during the selection process and its time frame, we analyzed how the signaling game evolves during the selection process. To do so, we identified different types of signals, the environment where signaling takes place, and the starting point and the endpoint of signaling. These factors together constitute the signaling game in family businesses.

During this game, an additional factor is important. Feedback from the receiver, or information on whether the signaler sends the "right" signals, is quite important. When using feedback loops, the parties work together to decrease information asymmetry. Consequently, the signaler learns which signals he should send and is able to adapt his signaling strategy if he is able und willing to invest in receiving this signal due to his underlying productivity or commitment (Connelly et al., 2011). Family business research shows that, in some cases, potential successors are pressured, and expectations are directly communicated (Jaskiewicz et al., 2013; Parada, Nordqvist, & Gimeno, 2010). These mechanisms can be interpreted as a manner of giving feedback to potential successors. Signal frequency and the point in time at which signals are sent affect the success of the signaling game (Bergh et al., 2015; Davila, Foster, & Gupta, 2003). The signals the receiver is looking for and the signals the signaler sends can change over time. In signaling theory, these changes are referred to as the cycle of reciprocal adaptation (Bangerter et al., 2012). In family businesses, a step-by-step approach to business succession is realized (Le Breton-Miller et al., 2004). This process includes educational requirements and hands-on-training (co-habitation), which requires time and offers possibilities for exchanging information. This time span can offer opportunities to use signaling to exchange information, and cycles of reciprocal adaption may foster this exchange.

During their childhood, potential successors occasionally show organizational commitment to the family firm, for example, through internships, being present at firm parties or during conversations with the predecessor regarding the firm. Furthermore, predecessors observe personality characteristics (e.g., “My daughter is a salesperson”) and personal preferences and talents (e.g., potential successors’ hobbies, grades in school) in the family context. However, the frequency of signals we observed during this time is rather low. During the childhood of potential successors, we observed only hard- to-fake signals. Children do not deliberately invest in costly signals because children do not make strategic decisions. In adolescence, the frequency of signals increases and potential successors send not only hard-to-fake but also costly signals as a result of the pressure to select a successor increasing over time and career planning becoming more important for potential successors at that age. The education process of potential successors is the starting point from which the business system and family system overlap increasingly often. The increased attention of the predecessor offers the successor more opportunities to signal his and willingness to succeed. The potential successors join the business context increasingly more, for example, through free time activities in the company, holiday work, or hands-on training. We observed that potential successors often perform internships in the family business itself or internships in companies that are connected to the family firm. We also observed that potential candidates attempt to join the internal network of the family business.

Overall, we observed that in the early phases of the signaling game (the childhood of the potential successors), hard-to-fake signals dominate the game, and signaling frequency is rather low. From adolescence and adulthood until the selection event, signaling becomes intensified, and costly signals develop more importance in the signaling game. All these findings result in an overall model of signaling in family business, which is illustrated in figure 13.

Figure 13: An overall model on family business internal succession



Source: Author's illustration.

4.5 Implications for Signaling Theory

The present study shows that whereas the basic concepts of signaling theory can be identified in the process of family business and family internal successor selection, differences exist that influence the overall signaling game. A major difference is the signaling environment and the time frame in which signaling can occur. Furthermore, different types of signals appear to play different roles from the roles they play in other environments in which signaling games have been studied. These differences offer the opportunity to advance signaling theory in general because, in a non-family business context, these differences could, in certain circumstances, occur and are likely to yield identical consequences. In non-family firms, a situation is similar if signaler and receiver know one another outside the business context and the signaling timeframe is enlarged, such as when someone plans to start a business and recruits co-founders from his personnel network or in the case of internal and external candidates being part of the pool of candidates for a vacancy. These circumstances have implications for the occurrence and use of feedback loops and the meaning conveyed by specific signals. We define three major implications of signaling theory.

First, the differences in the signaling frame influence how feedback loops are included in the signaling game. Generally, signaling games are investigated in terms of a one-shot game. If signalers send signals in different signaling environments, they can adapt their signaling strategies in both contexts. Signalers become familiar with the selection criteria and preferences over time and can adjust their strategies. Family internal potential successors have a great deal of time to understand the family logic behind the selection process and, thus, will be better able to adjust their signaling strategy to this logic than external candidates will (Jaskiewicz et al., 2015b). In a non-family context, a private logic may co-exist with a business logic. In the case of the receiver knowing the candidates over a longer period of time, these criteria may come into play. Hence, internal candidates have not only an advantage because they have more time to adapt to the selection criteria but also the opportunity to understand both types of selection logic.

Second, signals that are sent in the private context and not in the business context grow in importance. In a context in which individuals are recruited from the personnel network or from inside the company, signals may also have different meanings, and hard-to-fake signals are likely to grow in importance because they can be observed more closely. Typically, in a personnel selection process, costly signals can more easily be assessed and, hence, should play a more prominent role in the selection. We observed that predecessors place more importance on personality traits and free-time activities than would generally occur in a selection process. This phenomenon implies that with the enhanced signaling frame, hard-to-fake signals become more important than general costly signals. Furthermore, not only the importance placed on different types of signals changes with the enhanced environment but also the potential meaning/interpretation behind the identical signal may change. The role hobbies and other free-time activities play in the selection process is another example of how the value and meaning of signals changes with the signaling environment, that is, when it is interrelating a private and a business environment. Hobbies and other free-time activities were often mentioned by the interviewees in our study and frequently play a role in prototypical personnel selection processes.

Third, internal candidates can involuntarily become part of the pool; therefore, negative signals grow in importance, as potential candidates may want to be excluded. Most studies on signaling do not focus on negative signals. Therefore, an understanding of sending negative signals provides important insights into an under-researched aspect of signaling. According to our findings, in the family business context, the signaling game begins with the birth of a potential successor; hence, from birth on, individuals are part of the pool of candidates, regardless of whether they want to be. Therefore, if a potential successor is not willing to succeed, he must send appropriate signals to be excluded from the pool. Furthermore, in this setting, the probability of faking negative signals may increase because potential successors may be expecting negative reactions from the predecessor due to family bonds if the potential successors signal that they are not willing to succeed but appear able to do so. One reason for sending negative signals to be excluded from the pool of candidates may be to preserve harmony within the family. We observed that in situations in which a larger number of potential candidates are in the pool, candidates support other potential successors by consciously sending negative signals. In this case, the decision-making process and the legitimization of the selected successor become easier. In this situation, candidates who do not want to be selected can preserve the socioemotional wealth of the family and the firm. Sending and faking negative signals can be expected to be quite important in other contexts in which candidates involuntarily become part of the pool. If a personal relationship exists between parties, sending negative signals may be used to be excluded from the pool while preserving harmony between parties. This phenomenon also can take place in the non-family business context, for example, if a project group is searching for a group leader and parts of the group are friends. In addition, in schools, not every teacher is interested in being part of the pool of candidates for the dean position.

Summarizing our findings in the context of non-family firms, the current study emphasizes that, in particular, the long time frame and the overlap between business and private contexts exist outside the family environment and, therefore, the findings of the present study can be applied to enrich signaling theory in general. Furthermore, long-term development or education programs within a company offer the opportunity to adopt learning and signaling strategies that are typically observed in family firms. The opportunity to observe potential candidates for internal management positions over a long time enables decision makers to evaluate private activities and emphasize education more strongly. The evaluation of different signals is promoted, and the value of specific signals changes.

4.6 Discussion

To our knowledge, the present study is the first to apply signaling theory to the selection process of family internal successors in family businesses. We propose that the signaling game begins with the birth of potential successors and ends with a selection event for the management position, which is initiated either by the predecessor, by the successor, or by necessity. This long time frame allows the potential successors to send signals, which are perceived by the successor. The signaling game changes over time: whereas during the childhood of potential successors, only hard-to-fake signals are (unintendedly) sent and the signaling frequency is low, the signaling frequency increases from adolescence onward until the selection event, and hard-to-fake signals increase in importance.

The application of selection criteria and the development of the successor are key success factors for business successions (Chrisman et al., 1998; Le Breton-Miller et al., 2004). Family businesses often miss out on the opportunity to apply these criteria. However, the results of the present study show that selection criteria are present in most of the companies in our dataset, following the findings of Schlepphorst and Moog (2014). Predecessors evaluate different types of selection criteria. The results show that formal education that suits the requirements of the company is a significant criterion. Beyond that, personality traits and commitment to the company are criteria that form the basis for successor selection. Furthermore, the present findings are consistent with findings from Chrisman et al., (1998), Wiklund et al., (2013), and Verbeke and Kano (2012). These authors noted several important attributes of successors in family businesses and emphasized the combination of attributes required for success, the prominent role of fit with the family and the need for professional skills. An enhanced signaling environment enables predecessors to identify and perceive signals related to different types of attributes and their combination. In the majority of the cases we analyzed, potential successors spent a great deal of time in the company before finally being announced as the successor. By doing so, they developed deep insights into the company, which is hardly possible when external managers are hired. Furthermore, internal successors know the entire family and, hence, not only have extensive specific business knowledge but also family knowledge; this can be interpreted as an advantage over hiring external managers who have not previously been employed in the company.

The present study not only clarifies the selection processes of internal successors in family businesses but also shows the selection process in a different light, contributing to the current debate on professionalization in family businesses. As discussed above, some of the peculiarities of these processes can be regarded as advantageous instead of disadvantageous, as they have been mostly regarded so far. Hiring and integrating an external manager in the family business is generally regarded as an indicator of professionalization (Chittoor & Das, 2007; Dekker, Lybaert, Steijvers, Depaire, & Mercken, 2012; Steward & Hitt, 2012) and often may be the only way to reach professionalization in selection processes. Hall and Nordqvist (2008) argued that selecting managers from the pool of family members is inherently unprofessional as a result of disregarding their education and professional background. However, as we can explain with our data, the opportunity to observe hard-to-fake signals from early childhood is unique. Furthermore, it has often been assumed that no information asymmetries exist and that there is no pool of successors: only birth determines who will be the successor (nepotism) (Jaskiewicz et al., 2013; Salvato et al., 2012). In the cases analyzed in the present study, we observed that not to be true. In all cases, more than one potential successor was present in the pool of candidates. However, it must be noted that some of the peculiarities of the environment in family business are likely to add noise to the signaling game. Although a pool of candidates exists, that pool is restricted. Even more importantly, the relationships within the family will influence how signals are perceived when being sent by potential successors. Furthermore, as mentioned above, when a potential successor does not objectively meet the criteria, measures are often taken to render him or her fit. Beyond taking certain measures such as putting pressure on a potential successor to perhaps choose the right education or attend training, signals may be construed in hindsight to legitimize the decision that has, in fact, been made without considering relevant signals. In this case, the perceived signals would represent a cognitive bias rather than a way to reduce the adverse selection problem. All these aspects can be regarded as hindrances in the signaling game and in professional successor selection. We thus conclude that, from a signaling perspective, selecting internal successors is not necessarily less professional than selecting an external candidate; it can be professional in a different manner.

4.7 Limitations and Future Research

The present study has several limitations, some of which are inherent to qualitative research. First, in the majority of the cases we analyzed, the interviews were retrospective. Because the content of the interviews refers to the past, sense-making processes likely lead to complexity reduction. Furthermore, social expectancy and awareness that the other actor could receive information on the statements made during the interview could bias the data. We took measures to counteract these effects. Whenever possible, we interviewed more than two people regarding the selection process, important signals and selection criteria and compared the educational background of the successors with the conventional requirements for similar jobs. However, we encourage future researchers to apply a longitudinal approach and collect data at several points in time during the selection process.

Second, in qualitative research, we must be aware of alternative explanations for the observed phenomena and take measures to exclude those alternatives (Yin, 1984). In the present study, differences in firm size, the pool of potential candidates, and governance structures regarding successor selection could limit the explanatory power of our data. Aware of these factors when conducting interviews and analyzing the data, we attempted to minimize these limiting effects. Nevertheless, future research should control for these factors.

Third, in the present study, we defined the decision of to whom management power will be transferred as the end of the signaling game. Although this restriction is appropriate when analyzing the selection process, it is nevertheless likely that signaling in some form continues after that point. In many family businesses, there is no abrupt transition of management power, and the predecessor often remains within the company (e.g., on the advisory board). Although ownership transfer is generally initiated by management transfer, signaling may nevertheless occur between these stages, and decisions can be revised. We therefore encourage future research to investigate whether and how the signaling game develops between the management transfer and the finalizing of an ownership transfer.

4.8 Managerial Implications

In addition to its theoretical implications, the present study also offers managerial implications. As the findings show, selecting family internal successors in family businesses is not necessarily unprofessional, and the peculiarities of family businesses can also be regarded as opportunities to optimize this process. Although the findings show that selection criteria exist in most family businesses, the results also show that these criteria are not often transparent to all individuals involved and may evolve implicitly rather than being explicitly established with regard to strategic goals. Consciously establishing selection criteria and communicating those criteria to potential successors could help to render the selection process more transparent and efficient.

The limited pool of internal candidates may hinder a successful succession. Because internal candidates are observed from early childhood, potential weaknesses can be identified early in the process. Training and strategic personnel development of potential successors can be a way to balance the disadvantages related to a limited pool of candidates. The family environment not only offers signaling opportunities but also introduces noise into the signaling process. These effects cannot be fully excluded. However, being aware of potential biases stemming from interpersonal relationships within the family may be an important first step in counteracting these effects. Including external advisors from the process could also help overcome these biases and lead to a more professional selection process.

These applications can also be applied to non-family firms in the case of situations that are comparable to the situation of selecting internal successors. In situations with a long period of exchanging signals and/or a close personal relationship between actors, similar implications for personnel selection can be expected. In this case as well, candidates might be part of the pool even though they do not want to be, which emphasizes the importance of the often-neglected negative signals. Furthermore, more feedback loops exist and can be used to improve the professionalization of the signaling game, even when long-term relationships exist between actors.

4.9 Conclusion

Our study shows that family businesses use signaling as a selection instrument when recruiting family internal successors. Our findings provide a signaling perspective that improves the understanding of internal selection processes in family firms and helps to explain how the signaling game and the selection process evolve over time. Furthermore, our findings contribute to signaling theory by demonstrating how an expanded timeframe and environment, including a business and a private context, may affect signaling games. These considerations render the insights of the present study transferable to contexts beyond family businesses, namely, contexts in which a long-term private or business relationship is involved (e.g., signaling between relatives bound by blood, spouses, friends, or employees who have been members of the organization for a long period of time).

Inherent in the expanded environment are private contexts, the various qualities of signals and the transferability of the blood-related selection process to selection processes in which a close relationship such as friendship or marriage is present. The long timeframe of signaling offers advantages for family firms, advantages that can also be adapted in non-family firms. Although the present study took important steps toward a better understanding of this field of investigation, gaps remain. We therefore encourage future studies to fill these gaps.

This study focuses on the management succession decision. Thus, from this understanding, the exchange of information is finished when the final decision of the management is taken. According to the theoretical model developed in chapter 2.5, there is a time when the predecessor and successor are working together also after the management succession, and the process will run further on until the final transfer of ownership. Moreover, there is information that is transferred when it is clear who the final successor will be. This behavior can result because it is more efficient to transfer this kind of information only to the final candidate. Furthermore, there could also be information that is so critical that it can only be transferred to the final candidate. There is a lack in our knowledge about what happens in detail after the management succession until the final ownership handover, especially in relation to information exchange. As previously mentioned, most of the research on business succession focuses on the management succession (Nordqvist et al., 2013). To fill this gap, the next chapter focuses on social capital transfer. The knowledge about network contacts and the ability to handle these networks can be a crucial succession factor for the long-term survival of a family firm. The potential successor needs information about existing network contacts of the predecessor and the business. Then, he has to decide whether to explore these network contacts and build them as his social capital or to quit some contacts due to time restrictions or other reasons. Through deep investigation into the social capital transfer during internal business succession, this research contributes to increase the understanding of a concrete aspect of information exchange behavior between the predecessor and successor. Moreover, the study provides more in-depth insights on the outcomes of this behavior in the succession process.

5 It's All About Who You Know: Intergenerational Social Capital Transfer in Family Businesses

ABSTRACT

For most companies, social capital is a key issue in gaining strategic advantage. Not surprisingly, this is also known to hold true for family businesses. In this context, succession is a major strategic process, in which intangible assets like social capital have to be transferred along with shares and management positions. However, little is known about how family businesses deal with this strategic challenge. The present research contributes to a better understanding of how social capital is managed during the internal family handover from predecessors to successors. Exploratory qualitative multiple case-study research involving sixteen interviews at four family firms generated insights into awareness of social capital as a key success factor, and into when and in what increments it is transferred. The findings also show how networks change over time and underline the strategic and operative challenges in dealing with social capital transfer. Finally, a conceptual model was developed of intergenerational social capital transfer.

Keywords: Family Business, Business Succession, Social Capital

5.1 Introduction

As most family businesses progress despite the financial crisis and other general economic challenges of recent years, research interest in family firms has increased (Debicki, Matherne, Kellermanns, & Chrisman, 2009; Sharma, Chrisman, & Gersick, 2012). To understand why family businesses survive or die over time, studies have focused on various success factors such as socioemotional wealth (Gómez-Mejía et al., 2007; Naldi et al., 2013); familiness (Frank et al., 2010; Zellweger et al., 2010); or entrepreneurial orientation (Cruz & Nordqvist, 2012; Sciascia, Mazzola, & Chirico, 2013), as well as processes and models of succession and associated behaviors (Le Breton-Miller et al., 2004; Nordqvist et al., 2013). In many of these studies, the social capital of families or family businesses has been mentioned as an important resource (Bizri, 2016; Pearson, Carr, & Shaw, 2008; Sanchez-Famoso, Iturralde, & Maseda 2015; Shi, Shepherd, & Schmidts 2015), and exploiting this social capital - especially family social capital (Arregle et al., 2007; Gedajlovic & Carney, 2010; Pearson et al., 2008; Sanchez-Famoso, Maseda, & Iturralde, 2014; Sorenson, Goodpaster, Hedberg, & Yu, 2009) - has been seen as an important resource in generating positive performance (Chrisman et al., 2012; Coeurderoy & Lwango, 2012; Sanchez-Famoso et al., 2015). To explore how best to extract maximum value from the social capital held by family members and the family business (Chrisman et al., 2012), the influence of general family social capital on other kinds of social capital has also been discussed, including organizational social capital in family firms (Arregle et al., 2007; Uhlaner, Matser, Berent-Braun, & Flören, 2015); non-family social capital (Gudmonson & Danes, 2013; Sanchez-Famoso et al., 2015); and innovation (Classen et al., 2012).

In seeking to understand how family social capital is built and how it influences performance, an increasing number of studies have attempted to capture the specific effects of social capital in family businesses and to demonstrate its importance (Chrisman et al., 2012; Coeurderoy & Lwango, 2012; Sanchez-

Famoso et al., 2015; Uhlaner et al., 2015). Given that social capital in general refers to opportunities arising from the knowledge of others - that is, members of a social network (Burt, 2009) - social capital augments opportunity identification and recognition capabilities. Additionally, it provides access to "loci of resources," offers timing advantages, and constitutes a source of status and referrals (Nicolaou & Birley, 2003). For these reasons, social capital is thought to reduce the amount of time and money spent on gathering information and resources, so lowering transaction costs. As Nahapiet and Ghoshal put it: "Who you know affects what you know" (1998, p. 252).

Social capital also equips individuals to sustain and enhance their competitive advantage through new ideas (Florin, Lubatkin, & Schulze, 2003). Participation and investment in personal networks or contacts are thought to produce positive returns for both individuals and organizations. In the context of family businesses, the mobilization and use of individual social capital attracts benefits such as easier and broader access to information (Adler & Kwon, 2002), an improved knowledge base for (family) firms (Nahapiet & Ghoshal, 1998), easier and faster access to innovation (Zheng, 2010), and improved company output (Westlund & Adam, 2010).

Despite the advances and excellent insights of these recent studies, knowledge about intergenerational social capital transfer remains scarce. Several scholars in the field of family business research have suggested a need to focus on understanding the impact of intergenerational transmission - that is, the succession and transfer process of family businesses to the next generation - and what happens to social capital in this context (Chrisman et al., 2012; Miller, Steier, & Le Breton-Miller, 2003; Rutherford et al., 2008; Sharma, 2008; Villalonga & Amit, 2006; Zamudio, Anokhin, & Kellermanns, 2014). Some studies have already attempted a deeper analysis of intergenerational processes of growth and succession to learn more about the relationship between family involvement and company performance (Chrisman et al., 2012). To date, however, few studies have focused on the transfer of social capital in the succession process (Bizri, 2016; De Freyman et al., 2006; Dou & Li, 2012; Steier, 2001), even where it is obvious that the transfer of crucial contacts to the next generation of owners and managers is a key success factor for sustainable performance and survival. It is therefore important to know more about how family businesses seek to organize this transfer, and how they might do so more efficiently and effectively. According to Zamundio et al., (2014), many aspects of social capital are of interest to family business research, including the nature of ties and emotional aspects of the relationship, the contagion of this emotion to the network, and how family firms' networks (e.g., with their suppliers) differ from non-family firms.

In following this line of research, the aim of this paper is to deepen understanding of social capital within the family and the family business, as well as the transfer of social capital during the process of internal business succession. To these ends, a qualitative case study approach was adopted to look at a number of family-owned firms, using semi-structured interviews as well as secondary data to generate exploratory multiple-case studies for theory building (Eisenhardt, 1989). As a first step, we explored awareness among predecessors and successors in family businesses of the importance of social capital for success, based on their respective networks. In identifying the mechanisms underlying the intergenerational transfer of social capital, we sought to expand existing theoretical insights to find the "missing link" in the literature. The propositions derived from the case studies suggest a model of the transfer of social capital, enabling further theory building.

This paper makes a number of contributions to the family business literature. First, it explores the existing structures of social capital in family businesses at different stages in the succession process. A key insight that emerges is that the social capital structure of predecessors and successors changes over time during that process. To deepen knowledge of social capital transfer in the succession process, we develop a model of contact over time, showing when and how contacts are transferred, and who is responsible for contact at which stage of the process. In this way, the paper clarifies the changing roles of predecessors and successors over time in relation to important social capital assets or resources. The paper further extends family business scholarship by proposing a coherent framework in which to understand the transfer of social capital in family firms in terms of such facets as weak and strong ties, handover timelines, and how handover of contacts depends on their importance for the family and the company. Among other concepts, we introduce the *renewal of network effect* and the *generation gap effect* to describe how the succession situation can enhance social capital at the levels of individual, family, and firm.

The study is structured as follows. An account of the theoretical background is followed by a description of data collection and analysis. A summary of the main empirical findings then provides a context for the proposed model of social capital transfer in family firms. Finally, the implications of any predictions are discussed, along with the study's limitations and directions for further research.

5.2 Social Capital in Family Businesses and the Business Succession Process

Our definition of social capital at an individual level follows the ideas of authors such as Coleman (1988). Social capital is inseparably linked to the individual and is an intangible asset (Luthans, Luthans, & Luthans, 2004). An individual can create social capital as a private good (Coleman, 1988) by extending and improving social and business relationships (Glaeser, Laibson, & Sacerdote, 2001) or by participating in social relations and creating a personal network (Coleman, 1988). In this context, one's stock of social capital is defined as an important economic asset (Lin, 2001), and social capital and networking are universal key factors in business success. One important point for decision makers is that every network is unique, and it is important to distinguish between market, hierarchical, and social relations (Adler & Kwon, 2002). These involve different forms of exchange, including goods and services, obedience to authority, spiritual security, favors, and gifts. Additionally, the type of exchange may be either explicit or implicit, and ties may be weak or strong as well as external or internal. Granovetter (1973) distinguished between strong and weak ties, measured by “the amount of time, the emotional intensity, the intimacy (mutual confiding) and the reciprocal services” (p. 1361). Differentiation of external and internal ties is part of a wider discussion, informed by various definitions of social capital. According to Adler and Kwon, the internal tie “focuses primarily on social capital as a resource that inheres in the social network tying a focal actor to other actors” (2002, p. 19). Through this, social capital can used to understand success of individuals and organizations in their competitive rivalry. “In contrast to this view of social capital as a resource located in the external linkages of a focal actor, bonding views focus instead on actors’ collective internal characteristics” (Adler & Kwon, 2002, p. 21).

Burt’s (2009) structural holes theory offers interesting insights into entrepreneurial family firms, in which entrepreneurs are understood as players who use their position in network to pursue benefits from structural holes. In this context, social capital can be used for different purposes, substituting for or complementing other resources.

Nahapiet and Ghosal’s (1998) model suggests that social capital includes structural, relational, and cognitive dimensions. The structural dimension refers to the connections between actors and their network positions - that is, who actors can reach, and how. The relational dimension focuses on relationships between actors developed through interactions over time. The cognitive dimension includes resources that are an outgrowth of relations between actors with “shared representations, interpretations and systems of meanings” (Nahapiet & Ghosal, 1998, p. 244).

On that basis, following Adler and Kwon (2002, p. 23), Nahapiet and Ghosal (1998, p. 243), and Lin (2001, p. 3), we define social capital for present purposes as

> *"… the sum of the actual and potential resources and the goodwill available to individuals embedded within, available through, and derived from the network of relationships possessed by an individual. Investments in social capital will affect returns in the marketplace and as such are very important for business success. Its effects flow from the information, influence, and solidarity it makes available to the actor."*

In family business research, family social capital is also assumed to exist (Arregle et al., 2007; Danes, Stafford, Haynes, & Amarapurkar, 2009). Among the different approaches in the literature, some define family social capital as the relationships that exist between family members (Arregle et al., 2007). A broader definition of family social capital refers to relationships between family members and families; for instance, Danes et al., (2009) described it as "goodwill among family members and between families and their community members that can be input to the owning family and their firm to facilitate action" (p. 202). Similarly, Sorenson and Bierman (2009) argued that family social capital includes network structures between the family and the family firm, and that it is an important asset for the success of family businesses. One essential aspect of family social capital is that it cannot be imported or hired and is therefore an attribute (competitive advantage) that fundamentally differentiates family businesses from non-family businesses (Sorenson & Bierman, 2009).

The current literature has focused mainly on this kind of social capital (Nordstrom & Steier, 2015; Zamudio et al., 2014). This network perspective on family business concentrates on network structures inside the family firm and the family itself, (e.g., kinship effects and nepotism) (Carnes & Ireland, 2013; Chittoor &

Das, 2007; Verbeke & Kano, 2012) and on the distinction between family and business (Habbershon & Williams, 1999; Pearson et al., 2008; Sirmon & Hitt, 2003; Stewart & Hitt, 2012). In addition, the family is seen as a pivotal, intangible, and difficult to imitate resource, with strong internal ties that influence the family business culture. This is important in accounting for the entrepreneurial orientation of family members in relation to innovation and performance (Chrisman, Chua, & Kellermanns, 2009; Zellweger et al., 2012). There is evidence of the importance of family business networks for innovation, finance, and exchange of information (e.g., Classen et al., 2012; Zahra, 2010). Another kind of social capital is organizational social capital, defined as "a resource reflecting the character of social relations within the organization, realized through members' levels of collective goal orientation and shared trust" (Leana & van Buren, 1999, p. 540).

Because family business deals with both family and business, it is important to differentiate and confine one's attention to one kind of tie. To reduce complexity, it was decided to focus here on an analysis of the transgenerational transfer of social capital. The question of why an individual needs social capital might be answered by suggesting that social capital is a long-lived asset to be invested in, with the expectation of a future flow of benefits such as business deals and innovation creation (Adler & Kwon, 2002; Classen et al., 2012). Building and transferring social capital requires the expertise to identify key ties, to maintain strong and weak ties, and to handle the network with maximum efficiency. To remain successful, family firms must also face these challenges in transferring social capital during the business succession process. How they view and handle these challenges is the main research question of the present study, following Steier's (2001) assertion that it is important to develop an accurate map of the firm´s network structure and of how these intangible assets are transferred and managed.

On the basis of this theoretical discussion, we conclude that, as networks entail relations between different actors, and network contacts have to be transferred from one person to another during the succession process, some inherent social capital competence is needed. As a special kind of break in the life cycle of a family business, succession may interrupt solid external network contacts. Among the first studies of the link between business succession and social capital, Steier (2001) noted that this succession may take a number of forms: unplanned, sudden, rushed, natural immersion, or planned (Steier, 2001). Following this line of inquiry, based on 18 interviews with successors, Steier identified seven methods of managing social capital in these situations. As well as developing initial insights into awareness of social capital in a family business, he began to form a view of social capital transfer. De Freyman, Richomme-Huet, & Paturel (2006) examined the links between internal business succession and social capital transfer. Using semi-structured in-depth interviews, their main objective was to explore the conditions of transfer of social capital. Based on three elementary conditions (the successor must agree to integrate social network in place; the actual leader must agree to create a positive environment; stakeholders must agree to substitute these two generations) they developed an exploratory model of different zones for the transfer of social capital during business succession; these were the social distrust zone, the cognitive dissonance zone, the generational conflict zone, and the optimal transferability zone.

Another study dealing with social capital and the succession process analyzed the role of a special kind of social capital called guanxi (Dou & Li, 2012) - a network of personal contacts that influences almost all individual decisions in family business succession in China. Identifying four phases - preheating, triggering, readjusting, and reconstructing - Dou and Li (2012) showed how business succession affects the business network, which parties are affected, and how the guanxis of different actors overlap. Granted that such network structures do not exist in other countries, personal networks of family and friends are nevertheless likely to impact on individual decisions and behavior. In a case study of twelve family businesses in different industries and of different sizes, Bizri (2016) looked at drivers influencing the choice of successor and the impact of this choice on sibling entrepreneurial behavior. Bizri (2016) examined these selection drivers in terms of their structural, cognitive, and relational dimensions, confirming that all had an impact.

Nevertheless, many questions remain to be answered—for instance, at what stage of the succession process is what kind of social capital to be transferred, which contacts are most important to transfer at what stage, and how is social capital transferred between parties to the succession? As most family business owners worldwide still prefer to hand over to daughters or sons (Dehlen et al., 2014; Salvato & Aldrich, 2012), and given that prior research has emphasized the centrality of intra-family succession (Le Breton-Miller et al., 2004; Sharma et al., 2001), it makes sense to focus only on cases of internal family succession to generate results that will be of relevance to other family businesses. In particular, the external ties of the family firm owner are important because of the founder-centricity of small and medium family businesses (as well as those larger firms with a high founder-centric culture).

It is also known that many family businesses have persisting networks with other family businesses (Arregle et al., 2007; Classen et al., 2012). If all network partners are involved in the business succession process but attention is focused on internal changes, there is a high risk of overlooking the structured transfer of external contacts, and strong ties may turn into weak ones. Additionally, network partners may not be sensitized if only one family business is immediately involved in the succession process, or because the age distribution of network partners differs, again making the transfer more complex. In all such cases, the transfer of network contacts is difficult, and predecessors and successors may not be sufficiently aware of these issues in transferring social capital or sufficiently active in integrating successors into existing networks. As business succession increases the complexity of social capital exploitation, Zamudio et al., (2014) suggested that qualitative methods may prove fruitful for researchers in this area. The overall research question of this qualitative study is: How do family businesses deal with the transfer of social capital during the succession process?

5.3 Method

The general aim here was to provide an in-depth insight into the status quo, as well as the behavior of predecessors and successors in relation to the transfer of social capital. As mentioned above, few studies have examined the transfer of social capital in relation to business succession processes (Bizri, 2016; De Freyman et al., 2006; Dou & Li, 2012; Steier, 2001). Given the complexity of social interactions in this context (De Freyman et al., 2006) and the lack of any comprehensive analysis, it is considered preferable to adopt an explorative qualitative approach. As a means of describing a phenomenon in its real-life context, we selected the multiple-case study method (Eisenhardt, 1989; Yin, 1984) in pursuit of deeper insights in each case. The research questions seek to explain how a phenomenon takes place - in this instance, the transfer of social capital in a family business context - and what kinds of process can be identified and described, making the exploratory multiple-case study an appropriate choice (De Massis & Kotlar, 2014). This approach also provides a more robust base for theory building (Yin, 1984), and the analysis can be expected to yield more deeply grounded propositions (Eisenhardt & Graebner, 2007).

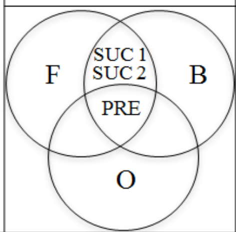
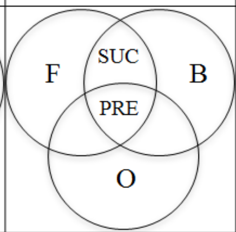
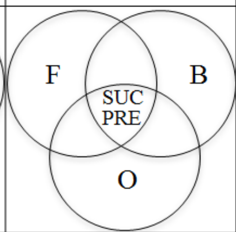
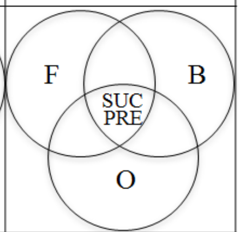
To generate results of general relevance to family business or to other domains such non-family business, the selection approach focused on small- and medium-sized companies that were family-owned. In the interests of building generalizable theory, businesses of different generations and size were chosen from one specific industry (the distribution sector), based on a theoretical sampling approach (Siggelkow, 2007). To begin, we defined family businesses as characterized by (1) an overlap between family, business, and ownership (Tagiuri & Davis, 1996), in which at least 50% of the business must be owned by one family or several families; (2) involvement or influence of one or more family members in management or strategic decisions and development; and (3) past, present, or planned involvement in a business succession process (Chua, Chrisman, & Sharma, 1999). Each of the case businesses complied with these criteria.

To achieve a broad insight into different kinds of family business and to assess similarities or differences in handling of social capital issues, we interviewed members of four German family firms of very small, small, and medium size. We excluded large family firms at this stage, as an overwhelming majority of family businesses (95%) are SMEs, and we wanted to focus on how those firms organize the succession process. Large companies may act in similar ways, but the results and insights would be less transferable. To ensure comparable results, the sample was also confined to a single industry, in which networks involving both long- and short-term customers or suppliers are crucial. While these data might be transferable to other family businesses and to other industries, our first concern was to generate ideas about the processes in this particular environment. All of our cases, then, related to different kinds of distribution firms, all of which were family firms, working as intermediaries in this business context. In the distribution sector, social capital is very important and indeed central to business success and survival.

To understand the process of social capital transfer, it was important to examine different stages of the succession process, and the selected firms were at the time in different phases of that process. All had commenced the process a few years previously. In three of the four cases, (CASE 2, 6 years; CASE 3, 10 years; CASE 4, 14 years), the predecessor had already transferred the daily business to a great extent to the successor; the remaining firm was at an earlier stage and as yet unconcerned (CASE 1, SUC_2). By framing the sample in that way, we hoped to obtain specific information about how family members deal with the transfer of social capital at different stages in the succession process, and about any differences or similarities at the various stages, as well as about the likely timing of social capital transfer. After analysing the first interview, it seemed interesting to look for further insights among the sub-groups (e.g. customers, suppliers, car-dealer), and it was decided to conduct the next interviews with those groups to better understand the social capital structure and the handling of the process.

Ultimately, then, we conducted four interviews with predecessors, five interviews with successors, and seven interviews with important employees and important network contacts outside the businesses (e.g., additional car dealer CASE 1; key employees (CFO) in the lumber company CASE 3). Starting from the core interviews and cases led on to other family firms or network contacts that helped to clarify the dyadic relationship (Gooty & Yammarino, 2011). Table 6 presents an overview of the data.

Table 6: Overview case studies

	Case Study 1 **Car Dealer**	Case Study 2 **Bicycle wholesaler and manufacturer**	Case Study 3 **Supplier of Lumber**	Case Study 4 **Supplier of Lumber**
				
Number of Employees	45	3	110	3
Timeframe of Integration	Suc 1 (Son): 4 Years Suc 2 (Daughter): 6 Month	Suc (Son): 6 Years	Suc (Son): 10 Years	Suc (Son): 14 Years
Subcases analyzed	No	Yes	Yes	Yes

Source: Author's illustration adapted from Tagiuri & Davis (1996)

All the data collected from one-to-one interviews were transliterated, coded, and finally analyzed using MAXQDA (software for qualitative analysis). For in-depth insights, the semi-structured interviews included key questions related to existing social networks, the construction and extension of social network structures, and the transfer of social network relationships during the business succession process (see the semi-structured interview guide in the Appendix). Secondary data were used to extend and review the data from personal interviews, including firm homepages and historical records such as chronicles and periodicals. Additionally, several industry reports were screened to ensure that data were representative and to subject the investigated businesses to cross-sectoral comparison. To be sure that we were dealing with family businesses, we asked interviewees (predecessors and successors) to answer some questions regarding F-PEC values. This provided further information regarding the family influence on the business and their thoughts and culture in relation to "power, experience and culture" (Astrachan et al., 2002). In so doing, we were able to gather more information about ownership, management structure, and business relations to enrich and support the analysis.

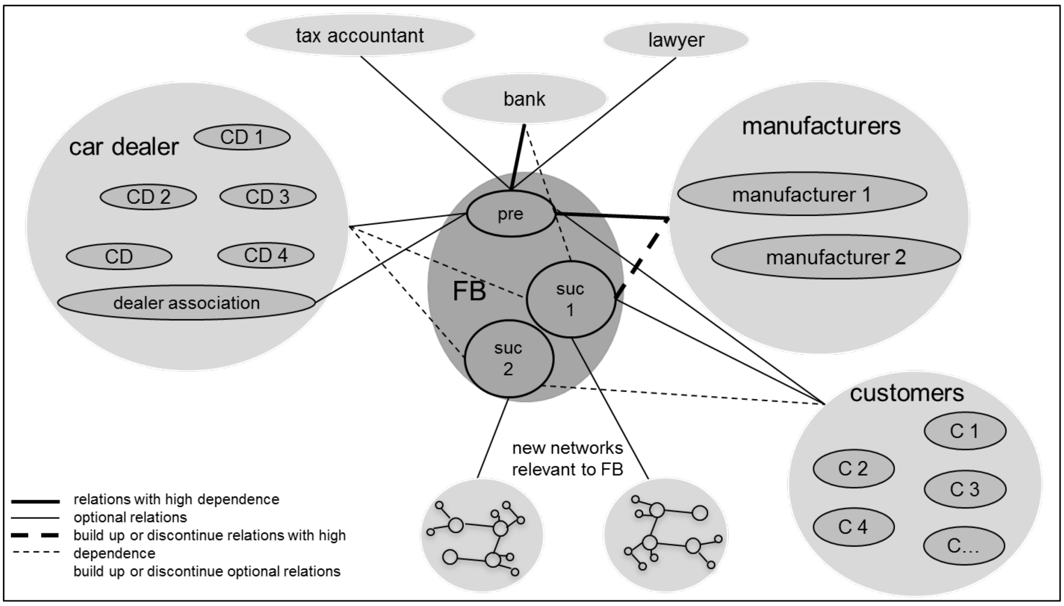
5.4 Analyses and Results

In this exploratory study, we adopted a two-step approach. In the first step, we analyzed and described the existing network of predecessors and successors. Most of the dataset referred to family firms that chose a planned succession, where predecessor and successor were likely to work together. Such firms have a realistic chance of transferring network contacts in a more or less organized and planned way. As mentioned above, it was assumed that important external network contacts must be known and transferred if a family business is to transfer successfully to the next generation for long-term survival. For those who did this in an organized way, we wanted to know how and when; for those who were less well organized, it was even more interesting to see how a transfer happens (or fails to happen). To analyze explicit and implicit known network contacts, we compared the statements of participants to identify overlapping network contacts. According to Steier (2001), graphics can be drawn to clarify and reveal transparent network contacts. In addition, we explicated one further important item of information: the current position of successors inside the company at a specific stage in the succession process. Taguiri and Davis's (1996) three-circle model was used to determine whether the successor was in the family sphere only or already active in the business or ownership/management sphere.

To get a general idea of how they worked together, the answers of predecessors and successors were compared, first in single cases and then across cases. In this step of the research, the material was reduced to key aspects to represent those in figures for each case study. Without articulating any specific definition of social capital, all participants argued that important network contacts were defined as the key people or companies with whom they had the longest relationship, who were trusted and had trust in their mutual relationship. The following section provides examples of networks from the different cases.

5.4.1 Case Study Network Structures

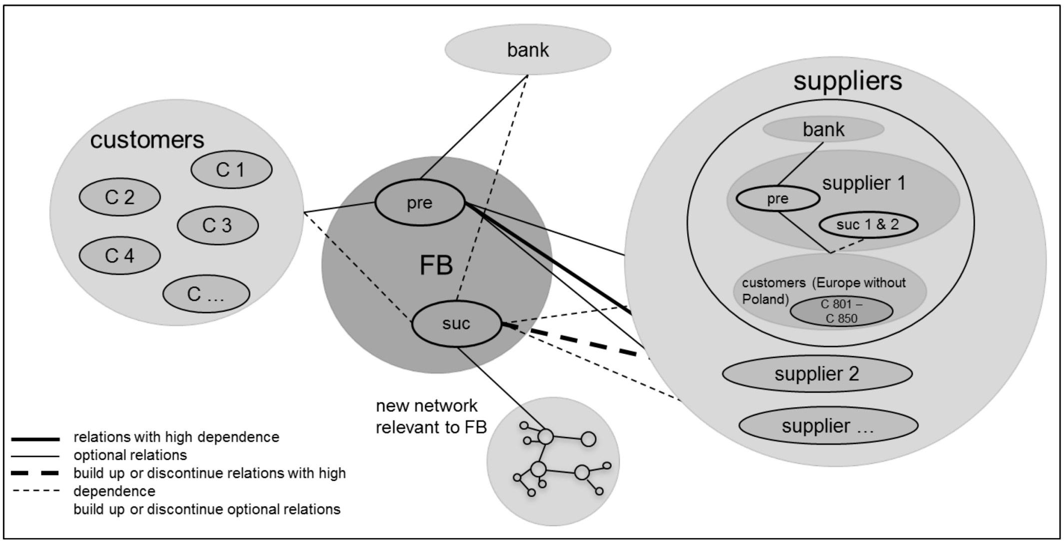
Figure 14: Case study 1



Source: Author's illustration.

Figure 14 shows the actual network structure of the car dealer (CASE 1). In this case, there is high dependence on manufacturers, as well as interdependency on the bank because of a high debt ratio. While other network partners are very important, the relationships are mainly optional. Because of the long product life cycle, customers are less relevant as network partners. This assumption was also confirmed by our interviewees. As successor 1 (SUC_1) has been in the family business for four years, they have more relationships with a number of actors than successor 2 (SUC_2).

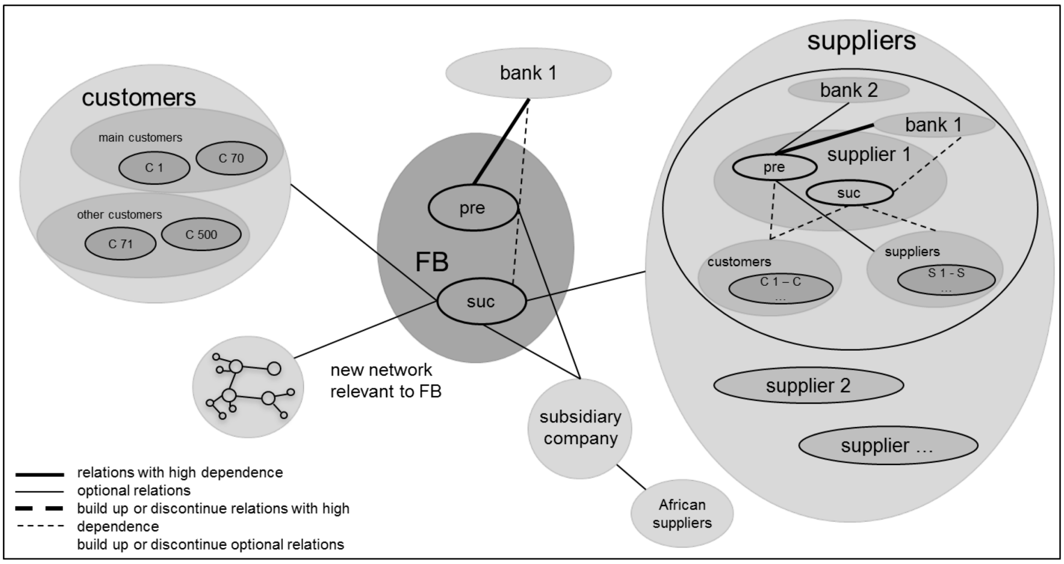
Figure 15: Case study 2



Source: Author’s illustration.

The network structure of the bicycle wholesaler and manufacturer (CASE 2) is shown in figure 15. In this case, there is also a subcase with a business succession process. To reduce complexity, it was decided to show only aspects of relevance to the main case in figure 15. As this is a smaller business than CASE 1 and CASE 3, there are also fewer main actors in the network. One interesting aspect is the significant network distance to the bank, as the business is completely self-financed. Although the successor has worked for six years in the family business, and the predecessor knows that some network partners are waiting for the succession, most relationships are with the predecessor. This is a special situation in that the successor is studying at university while working in the family business.

Figure 16: Case study 3

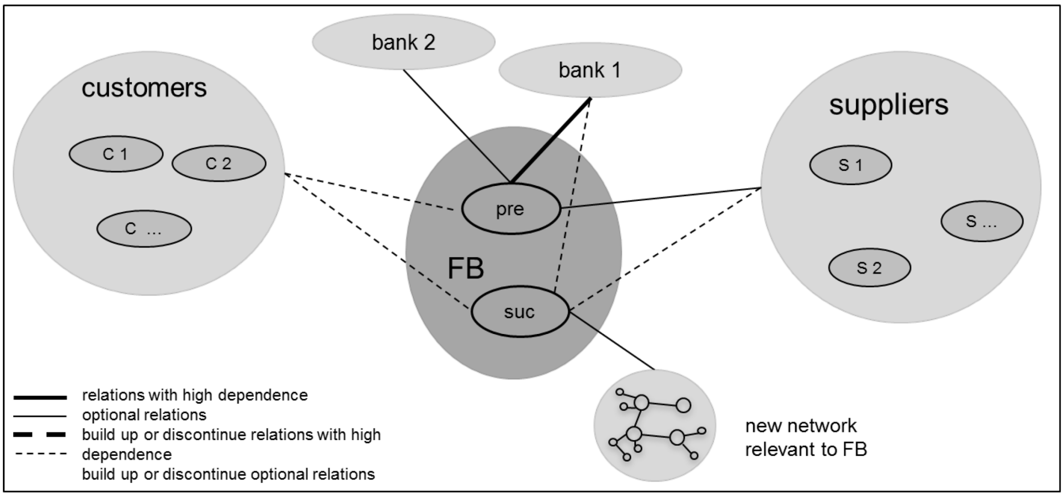


Source: Author’s illustration.

Figure 16 shows the supplier of lumber (CASE 3). In this case, predecessor and successor have been working together for ten years and are equal-share owners. The predecessor has to a great extent successfully transferred his contacts to network actors; this can be inferred from both actors’ confirmation that former business partners of the predecessor now contact the successor. The successor’s new network is also important, as he has not only adopted the existing network but has also built up a new one. Only the bank and subsidiary company are part of his connections within the business network.

The final case study (CASE 4) is shown in figure 17. Here, the predecessor and successor have already been working together for fifteen years, which is the longest timeframe for business succession among the observed cases. For this reason, as in CASE 3, most network contacts have already been transferred. One interesting point of difference from the other cases is that a second important bank was mentioned as a network partner. As the successor has an existing relationship with one bank, there is no contact with the second bank—a relationship that is still maintained by the predecessor.

Figure 17: Case Study 4



Source: Author's illustration.

Based on our observations, these family business networks and their ties are illustrated in the graphs by lines of different strengths and by the distances between network contacts. To elucidate social capital structures during business succession processes, we reflected on two initial points. First, we thought about plotting the different actors and their importance to the respective businesses. We also wanted to characterize how predecessors and successors are linked to each other's networks. To this end, we analyzed where they are similarly linked or where relationships are held only by one of them to establish the extent to which social capital has already been transferred. From our analysis of the interviews, we were able to identify two key relations: (1) high dependence over a longer period and (2) optional relations resulting from friendly or extensive cooperation. This perspective mainly reveals the relationships of the predecessor; the successor's relationships to network actors are often still in development but may also be high-dependence or optional.

Where the successor becomes increasingly involved in the family business, his contacts will build up over time, as illustrated in these quotes from the predecessor and successor in CASE 1.

PRE_CASE_1: We are involved in an important network with other car dealers. In this network, our conversations are very important (for the use of our power as a group). I have an important position in this network because I am a friend of the president and vice president of the network.

SUC 1_CASE_1: The network holds a round table every three or four months. I have been there from time to time, but it was not of interest to me. Perhaps I will intensify this in the future.

As the quotes above show, the strength of the tie and the evaluation of its importance differ for the two parties. In this case, the predecessor will remain in the family business in the coming years. The successor is still at the nurturing and development phase and currently has 10% ownership. Here, we observed a step-by-step business succession process, which is aligned with gradual social capital transfer. Modeling network structures, the responses of the most important network actors provide information about levels of trust and friendship. From these questions, we were able to establish whether the network is used only for business relationships or whether there is perhaps a high dependence on a particular supplier or customer. For example, one predecessor says that while in the case of one supplier, there is close collaboration without dependence (PRE_CASE_2), another relationship is "unavoidable" (PRE_CASE_2). The following quote clearly indicates a high level of dependency.

PRE_CASE_1: This one of my new goals: to change, with my son (successor), the 100% dependence on the one and only supplier (...). To design a new format and so become more independent.

Based on these statements, we analyzed all interviews to look for dependence between network partners. One example of an optional relationship is the statement *"We have a multitude of suppliers"* (SUC_CASE_3). Such statements are classified as optional relations "without" dependence. In some interviews, we found that optional relationships could result in friendship, and vice versa (e.g., CASE 1).

To assess the extent to which social capital is already transferred, we analyzed predecessors' and successors' answers about their first role in the family business and their current positions. For example, one predecessor reported that while at the beginning of the succession both of them handled customers, over time relationships with new customers have been maintained by the successor, and old contacts have also for the most part been transferred (PRE_CASE_4).

After describing the status quo in relation to social capital and predecessors' and successors' networks, we analyzed the process of transferring social capital; more precisely, we focused on the implications of the process of transfer of network contacts during the internal business succession. Two overall inferences can be drawn from our mapping of the networks. First of all, information asymmetries can be identified, in that some predecessors' network contacts, although relevant to the company, were already unknown to their successors. Some successors did not know the names of key network contacts, and some were unable to evaluate the strength or importance of contacts (CASE 1). A second finding was that successors who already hold shares in the company are more integrated in the network than those who were currently only members of the management team (e.g., CASE 2 and CASE 3). Beyond these overall implications, we were able to identify specific phenomena that occur during transfer of network contacts, and these will be described in the next section.

5.4.2 Strategic Reasoning for Business Succession and Success

In this section, we will develop propositions that can be used for further theory building. Our first obvious finding is that, in every case, the network position of the bank is emphasized by participants, all of whom worked with only a small number of banks. In every case, as confirmed by every predecessor, the most interested and engaged partner in the succession process was the bank. As a network partner, the bank tries to actively screen the situation of both the company itself and of the successor as an individual. At the same time, it is clear that the bank is the network partner closest to the predecessor, and the one that the predecessor retains in his control for as long as he can. The quotes in table 7 provide exemplary evidence of this strong bank tie.

Table 7: Statements bank

Case	Quote
SUC_CASE_4	*Which are the five important network contacts?* *For me it is clear. First the local bank, I am sure, the local bank is very important.*
SUC_CASE_4	*Mainly I am responsible for customer and supplier maintenance. My father does all the contacts with the banks.*
SUC_CASE_4	*The collaboration with the bank, my father does. Sometimes I attend, but the contact in the bank is a friend of him. Over the years of collaboration they developed a private relationship, and my father was on the board of directors in the past.*
PRE_CASE_2	*We cannot count on the current customer structure. It is also very important to know our former suppliers and the contact with the bank. A good, very intensive relationship with the bank is important. And these network contacts have already asked when my son is going to become my successor.*
Additional_Interview_CASE_1	*We are a company of good standing at our local bank. This is very important.*
SUC 2_CASE_1	*And my brother said to me another day: "Imagine, we two together at a bank discussion. We will floor them." At the moment this is only imagined, but this is a good one.*

Based on the observed pattern, we propose the following.

> ***Proposition 1:*** *The bank as a central network contact is retained for as long as possible in the predecessor's network.*

The position of the bank and its relationship with the predecessor was acknowledged by all the successors in our study. We also established that potential internal successors lack social capital and competence to act in networks to build relationships with the bank or other important network contacts. This finding derives mainly from two elements of the adopted approach. First, it reflects the selection process; in some cases, there was a pool of candidates, and the predecessor could choose an internal successor (CASE 1, CASE 3). In such cases, some social capital signals are clearly important. As one of the successors mentioned, they have to be similar to their father, especially in communication with suppliers:

> *SUC 2_CASE_1: We should be like him (Predecessor) (...) He is someone who bangs on the table. He has a strong character; everybody knows him, and my brother is like him. I think I am more introverted.*

In one of the subcases, the successor reported that her brother was not interested in representing the company at marketing events or official dates:

> *Additional_Interview_CASE_1: My brother makes his own things. (...) I am extrovert and my brother is not. He does not want to go to meetings or represent the firm. He does not like it. This is why I am the CEO.*

Because of this disinterest, he would not ultimately become the successor—a decision taken by the predecessor and potential successors. From this, we would suggest that in a situation where there is a pool of candidates, social capital competence is seen as a selection criterion. Predecessors integrate their successors step by step into the current network; the object of this action is to maintain that network. It also could observed that the predecessor intended to leave his own network once the successor was integrated.

Where there is no pool of candidates, another solution can be identified: the reallocation of social capital through key employees who care about the network contacts. In CASE 3, for instance, it was interesting that the key employee also cared about bank contact; here, the missing social capital of successors will be balanced through an external source. This key employee is also responsible for bank contacts and financial affairs. On that basis, the following propositions are advanced.

> ***Proposition 2a:*** *Social capital is a selection criterion in the business succession process and is trained through step-by-step integration into the network.*
>
> ***Proposition 2b:*** *If the preferred internal successor lacks social capital, this is balanced through an external team member.*

A further aspect that emerged when analyzing the network was that it may be important to consider the age of those in the family business network. This is necessary in a number of instances; first, if other firms in the network are family businesses and already have a business succession process, are planning a succession, or are at least alert to it. Second, network actors may be non-family businesses, in which management longevity is often less than in family businesses, which means that younger actors may become important actors in the network. Third, new businesses with young owners or employees may move into the market. In these cases, there is the possibility of a *generation gap*. The predecessor in CASE 2 mentioned this as a reason for the necessity of succession:

> *PRE_CASE_2: He (my son) has to address the young generation. We are in a successor change situation. The youth take over our customers' businesses, and they are the same age as my son. These young people understand each other, and sometimes they have totally different opinions. I am sure that he is able to handle this situation.*

This predecessor pointed out that his successor must address the new generation, given that some of his network contacts had already transferred their businesses to that next generation. Another reason is that new ideas related to products or ways of working together may prove much easier to advance within convergent points of view. One further reason relates to approaches to customer acquisition. To build up new network structures the predecessor and successor in CASE 3 visited and exhibited at different fairs. With many potential new network partners at these fairs, it could be advantageous to have two generations present as contact persons. During the transfer of social capital, it is important that predecessor and successor recognize this *generation gap* and are able to act accordingly. This leads to the next proposition.

> ***Proposition 3:*** *The generation gap is an important issue, as the successor must preserve the existing predecessor network and build up his own.*

Factors other than the *generation gap* may influence the transfer and building of new network relationships. Sometimes, for various reasons, business relationships within networks are curtailed—for instance, suppliers' products may change, or customers may have new requirements. But it is also possible that relationships are curtailed for personal reasons. Within the business succession, the successor may be able to renew those relationships, provided that he knows about former relations. We discovered that business succession processes can reinforce this effect, as reported by one of our participants:

> *PRE_CASE_3: A former relationship with a customer, lost because of interpersonal problems, was re-established because of changes in both management teams.*

By implication, one particular requirement of transferring social capital is to inform successors about old contacts and reasons why these might be renewed. In everyone's interests, it is essential to document former relationships and why these no longer exist. This must be a structured process, beginning before the successor joins the business and continuing until the predecessor leaves. Based on the observed pattern, we propose the following.

> ***Proposition 4:*** *Renewal of networks will only be possible if former relationships are known and the successor is capable of reactivating them.*

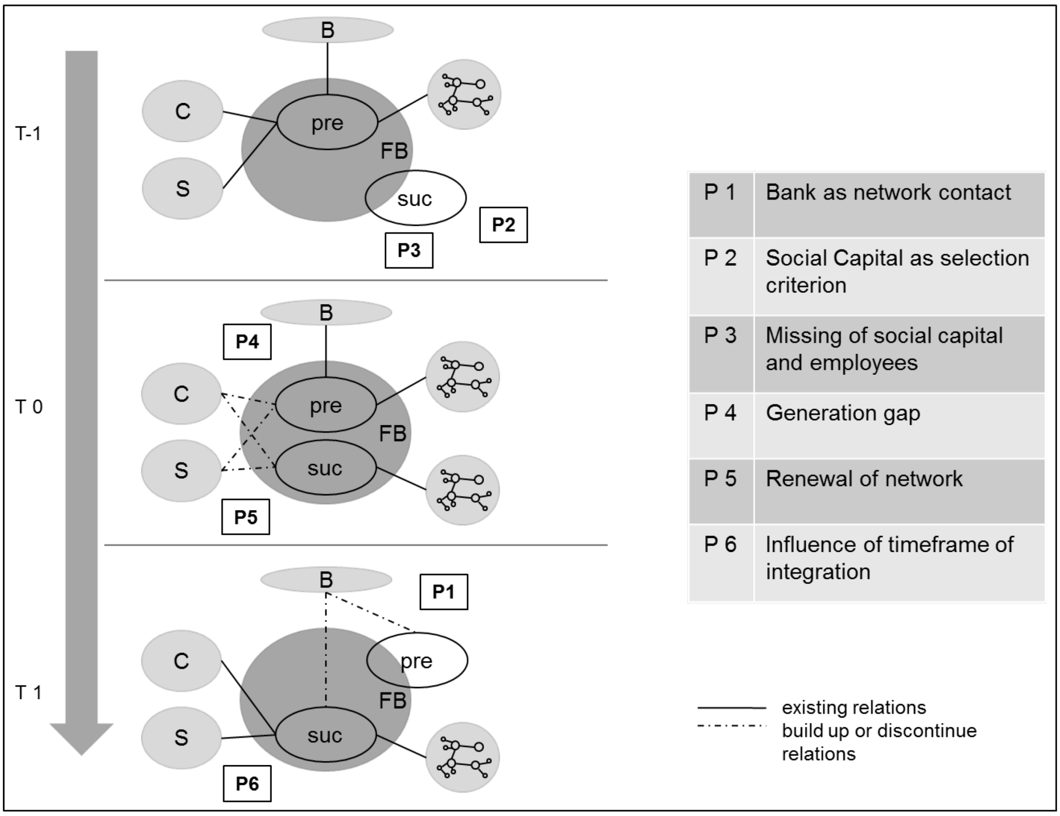
Another opportunity arising from the generation gap is inherent in the succession process. If a customer is closer in age to the successor, this may attract a strategic position in the management team. The need to understand customer needs and easier access to people of the same age means that the successor can more quickly occupy a key position in the network. This reflects the need for new input for innovative ideas, the possibility of exploiting the relevant network because of easier access to the target group, and better understanding of customer needs. Experience in the market may be balanced by network contacts acquired during education, such as university contacts. In CASE 1, father and son saw an opportunity to use knowledge of the target group to sell cars to customers closer to their own generation. And in CASE 3, the successor described that because he studied with the next generation of suppliers, they knew each other and talked about the future. The predecessor in CASE 2 underlined the dependence of new input on the successor, who had a better education. In this access to university through his son, he also saw an opportunity, sensing the need for innovation through the young generation. In this case, the successor was totally integrated in the company, had a good overview of network contacts, and represented the company in the central network. These findings inform the next proposition.

> ***Proposition 5:*** *Dependence on the successor as spin doctor and generation broker influences the timeframe of integration into the network.*

5.4.3 Towards a Process View of Social Capital Transfer in Family Businesses

To summarize our current findings and contributions to the literature, we constructed an overall model. Figure 18 visualizes these observations and propositions, highlighting the changes in social networks before, during, and after business succession. The findings include a specific timeframe for transferring network contacts.

Figure 18: Overall model of social capital transfer in the business succession



Source: Author's illustration.

In t-1, the successor is seen as a potential candidate, who starts by joining the company and gaining management competence. Still in education, the potential candidate joins the business with a given responsibility or in a specific management position. The relevant private network plays an under representative role in the family business at this time.

In t-0, predecessor and successor are in most cases working in the business at the same time. The predecessor begins to shed network contacts to transfer them to the successor, who in turn begins to build up relevant network contacts by transferring existing network contacts and integrating new ones. We note that, in the cases reported here, the kind of contact that is first to be transferred depends on the business model, and the heterogeneity of family business underlines this observation. In CASE 2 and CASE 3, suppliers were transferred in a more or less structured way. In CASE 1, customers were the first network contacts to be transferred to the successor, reflecting the dependence and personal contact with one main supplier. On that basis, we would suggest that the starting point for phase t-0 is the integration of the successor in the network through a more or less structured transfer of relationships considered relevant or important. As the successor's private network becomes more relevant, individual private networks of relevance to the family business are reachable but are not the focus of the actors' interest during this time.

In t+1, the predecessor is leaving the network. As already mentioned, the bank remains part of the predecessor's network as long as he retains part ownership. We can conclude that, in cases of founder centricity, the networks of predecessor and successor are defined as the important ones for the family business in general. Over time, the successor's network replaces that of the predecessor, who has an opportunity to leave the company and parts of the network. The timeframe and the opportunity to work together a structured process.

The propositions we build, are important in different stages of time frame. It has to be underlined, that in most cases, there is no event for implementing successors in the network through active communication. There is a creeping process, which includes knowledge management. There is awareness for social capital transfer, but daily business as well as the financial transfer of business is higher ranked in the business succession. It is need to mention that proposition 3 is depended from the size of business. According to resourced resource- based view, it is not possible in every business to integrate external team members in the top management team or to redefine the organizational structure to balance missing social capital. Additionally, this may not necessarily arise in every business succession process, as propositions 2 and 3 are linked with each other.

5.5 Discussion

In this exploratory study, we aimed to improve understanding of the transfer of social capital in family business internal succession. Based on interviews with family business members, employees and other important network contacts, we were able to demonstrate awareness of social networks, the transfer of important network contacts over time, and inherent outcomes for the family business in general. Based on knowledge of succession in family businesses, we have shown that transfer of social capital plays a crucial role in this process.

The present study extends knowledge of social capital in family firms. To date, studies of social capital and networks in family firms have been under-represented in the family business literature (Nordstrom & Steier, 2015). There is evidence that the social capital of families or family businesses is an important resource - for example, in generating positive performance (Arregle, Batjargal, Hitt, Webb, Miller, & Tsui, 2015; Bizri, 2016; Gedajlovic & Carney, 2010; Pearson et al., 2008; Sanchez-Famoso et al., 2015; Shi et al., 2015). Additionally, both family business research and innovation management research have identified interdependencies between networks and innovation (e.g., Classen et al., 2012; Chua et al., 2012; Zahra, 2010). This study extends current knowledge by underlining the *generation gap effect* and the *renewal of network effect*. Renewal of a family firm's network structure may enable innovation within the network, which is fundamental for long-term performance. Entrepreneurial orientation, both of the business and of each individual family member, is another possible explanation of how proposition 5 (*spin doctor and broker*) connects with proposition 3 (*generation gap*). As successors must close generation gaps, acting as brokers or spin doctors to compensate for structural holes, an entrepreneurial orientation can influence the future development of a family business and its networks (Burt, 1986; Chirico, Sirmon, Sciascia, & Mazzola, 2011).

In focusing on social capital transfer in family business internal succession, we contribute to the literature on business succession (Le Breton-Miller et al., 2004;

Nordqvist et al., 2013). More specifically, we have confirmed the importance of knowledge management as a basis for successful social network transfer (Steier, 2001). We can also situate our findings on information asymmetries in this context, proposing the existence of such asymmetries in relation to important network contacts during the internal business succession process. This may be explained as an unfinished succession process, and the step-by-step approach needed to integrate successors into the network is identified as a hands-on process. The timeframes of the cases analyzed reveal differences in level of information asymmetries, as they abate with time. It might be expected that the information asymmetries in CASE 3 relate mainly to network contacts that the successor does not care about. Additionally, principal agent theory may help to explain this situation (Madison et al., 2016). If the predecessor is seen as principal and the successor is seen as agent, there are inherent information asymmetries because both parties are in a signaling game. The succession decision is not fulfilled, and during this process, a change in selection becomes a possibility for both parties. As a result, the predecessor remains liable until completion of ownership transfer. The information asymmetries identified in our cases are well known for both parties but are not currently acknowledged as a central problem. It remains unclear whether the consequences are realized, as for example in cases of sudden unplanned succession. In line with the extant literature (Steier, 2001), we propose that most knowledge of social contacts is implicit. Without knowledge of former contacts, there is no possibility of exploiting the *renewal of network effect;* a tool to simplify or to accelerate both the process of transfer and easier network renewal would therefore be of practical relevance.

In this context, the bank plays an important role in the evaluation and transfer of contacts, perhaps according to the company's debt ratio. In CASE 3, the debt ratio was limited, but they explained the interests of the bank, and communication between them, in detail. In this case, dependency did not account for the strong relationship. It should be mentioned that, in Western Europe, the respect for banks remains high; independent of the debt ratio, there may be a feeling that the potential loss of autonomy also influences the situation, as the family business owner tries to retain the network contact. Another explanation may lie in the distinction between management and ownership transfer. In most cases, ownership transfer is realized following management transfer and often marks the closing move in the succession process. Until that point, ownership and accountability fall to the predecessor. As a result, regardless of trust in the successor, this relationship is influenced mainly by dependency. Another possible explanation is that the strength of ties rules the transfer process. In the step-by-step process, trust between both parties is developed according to willingness and ability to succeed. The stronger the trust in a fruitful succession, the more information is likely to be shared about contacts.

In addition to these important findings, the present study confirms the influence of social capital transfer on the business succession process at different levels. As well as developing a map of the firm´s network structure (Steier, 2001), we have added findings about awareness of the network structure among predecessors and successors. Our model illustrates the different stages in social capital transfer, which is analogous to business succession models. Furthermore, we extend the findings of Steier (2001) who identified four modes of succession and developed seven means of managing that process. Steier (2001) focused on the question of how next-generation entrepreneurs manage social capital residing beyond the firm, observing the broad spectrum of relationships and tacit knowledge. In the present study, we examined planned succession and the deliberate transfer of social capital, with due regard to the role of the previous generation in transferring this knowledge over time. We have also demonstrated that if they recognize a strategic asset in the network of the successor (*renewal of network effect*) or in their integration into the existing network, predecessors are likely to be more proactive. We have shown that beyond determining current criticalities (Steier, 2001), it is important to transfer important former network contacts that the next generation may be able to exploit. While agreeing that attaining legitimacy is important, step-by-step integration by the predecessor, where possible, can support that legitimacy. Our findings also align with existing evidence about managing ties through delegation and division of labour; to this, we add further evidence about social capital as a selection criterion, showing how family firms integrate other family members or managers before succession is finalized.

Our study also finds support for the three elementary conditions identified by De Freyman et al., (2006, p. 84): *1) the successor must agree to integrate social network in place; 2) the actual leader must agree to create a positive environment; 3) stakeholders must agree to substitute these two generations*. Our research confirms how these conditions can be applied to the succession process. We focused on planned successions, in which predecessors and successors are willing to transfer the family business and social contacts to preserve the family and the firm. Our model encompasses the transfer, integration of the predecessor, and the predecessor's departure. We can also show that the role of the successor as spin doctor and generation broker determines the succession timeframe. This can impact on stakeholder agreement by forcing the predecessor to integrate the successor into the existing network.

In line with Dou and Li (2013), who studied Chinese firms using guanxi (the Chinese version of social capital), we also show that there are different stages in social capital transfer. They emphasized the cross-generational role in readjusting for guanxi building and management. We show how role changes influence social capital transfer (and, in turn, the business succession process), which can be crucial both for renewal of the family firm and for innovation.

Our findings deepen Bizri's (2016) understanding of social capital in the context of Lebanese family firms, focusing on the drivers behind choice of successor and impacts on the entrepreneurial behavior of siblings. As well as considering social capital as a selection criterion, we also explore the further implications of social capital for the business succession process in general, contributing to the selection criteria research stream (Chrisman et al., 1998; Schlepphorst & Moog, 2014).

Our findings about the importance of likeness of predecessor and successor in relation to networking are also important. As already mentioned, social capital is among the selection criteria for business succession; as it is seen as a character trait, it may be a good idea to measure this trait as a criterion, relative to other selection criteria. This could be integrated in certain business succession transfer models (e.g., Le Breton Miller, Miller, & Steier, 2004), with emphasis on the process of nurturing successors. In every case, the step-by-step integration of successors into the network should be analyzed and assessed as a success factor. Where social capital is missing, external members can compensate; this finding also concurs with the literature relating to external members of top management teams and the professionalization literature (Stewart & Hitt, 2012).

5.6 Limitations and Future Research

As in any qualitative approach, the present study has some shortcomings, which can be fruitful for further research. As mentioned above, qualitative studies could yield more interesting findings. The small base of cases prevents generalization, and it would be necessary to conduct quantitative studies to check the models and propositions advanced here. As all the case businesses are in a specific sector of sales, other industries should be investigated to confirm our empirical results. In one of the cases, we observed dysfunctional family relationships and had to remove this information from our analysis. Our focus on the individual as the unit of analysis rather than using a multilevel approach could also be criticized. It is another limitation of this qualitative study that not every dyadic relationship was covered in the interview, as interview partners did not wish to supply information about the counterpart, or counterparts (especially bank contacts) were not allowed to divulge information to the research team. One of the studies involved a team succession. In such cases, it would be important to discuss who transfers the network contacts to whom - for instance, is the first successor responsible because he is in the network already? In consortia involving cousins, this process becomes increasingly complex. In the present study, only internal successions were analyzed. It might be supposed that external managers are subject to a more structured process because of the shorter time frame, but it remains a possibility that they are only given network contacts that are evaluated as important. Further research is needed to assess this situation. This study also considers external network contact, based on the unit of analysis and the assumption of founder centricity, and is also influenced by a firm size effect. In bigger or more decentralized firms, both the internal network balancing of social capital as well as the option to decentralize networking may be important resources in the succession process and should inform further research. The network might also be viewed as an exit strategy.

5.7 Conclusions

This paper has analyzed how social capital transfer within the business succession process can be transferred and which details of that process should inform best practice. This offers a new conceptual framework in the field of business succession and social capital, with implications for long-term corporate success. In an increasingly networked world, this study offers family firms a rationale for handling this challenge and highlights the importance and opportunities of structured transfer for both theory and practice. We hope these findings will inspire further research.

6 Summary of the Findings of this Dissertation and Concluding Remarks

Business succession in family firms is a complex process that requires further research to elucidate its dynamics and offer hints for preservation of the family and firm (Nordqvist et al., 2013). To attain the goal of understanding business succession, it is logical to reduce complexity and focus on the process itself or parts of the process instead of trying to comprehend "everything." In this context, "everything" refers to the dynamics in the family, the dynamics in the firm, and the dynamics in the environment. General models are sensitive to all of these dynamics, but researchers are forced to de-emphasize the importance of some aspects by focusing on different puzzle pieces (Le Breton-Miller et al., 2004; Nordqvist et al., 2013). To accomplish this, the focus of the dissertation has been on identifying how family firms deal with information exchange on a personal level during the business succession.

This dissertation followed their steps and aimed to expand the current state of knowledge on the influence factor of *information*. First, through the identification of existing information asymmetries in family businesses during internal business succession, the need for further research was underlined. With the focus on the selection process and by using signaling theory, one strategy to overcome information asymmetries was identified. The study on transferring social capital during succession underlined that the long timeframe family businesses have allows the process of succession to be understand as a time for renewal more than as a time for struggle. Following this basic idea, the different analyses were based on one theoretical model focusing on business succession from a principal-agent-perspective in family business, which was elaborated on in chapter 2.5. This helped to shed light on different parts of the succession process and close existing gaps in the current state of research.

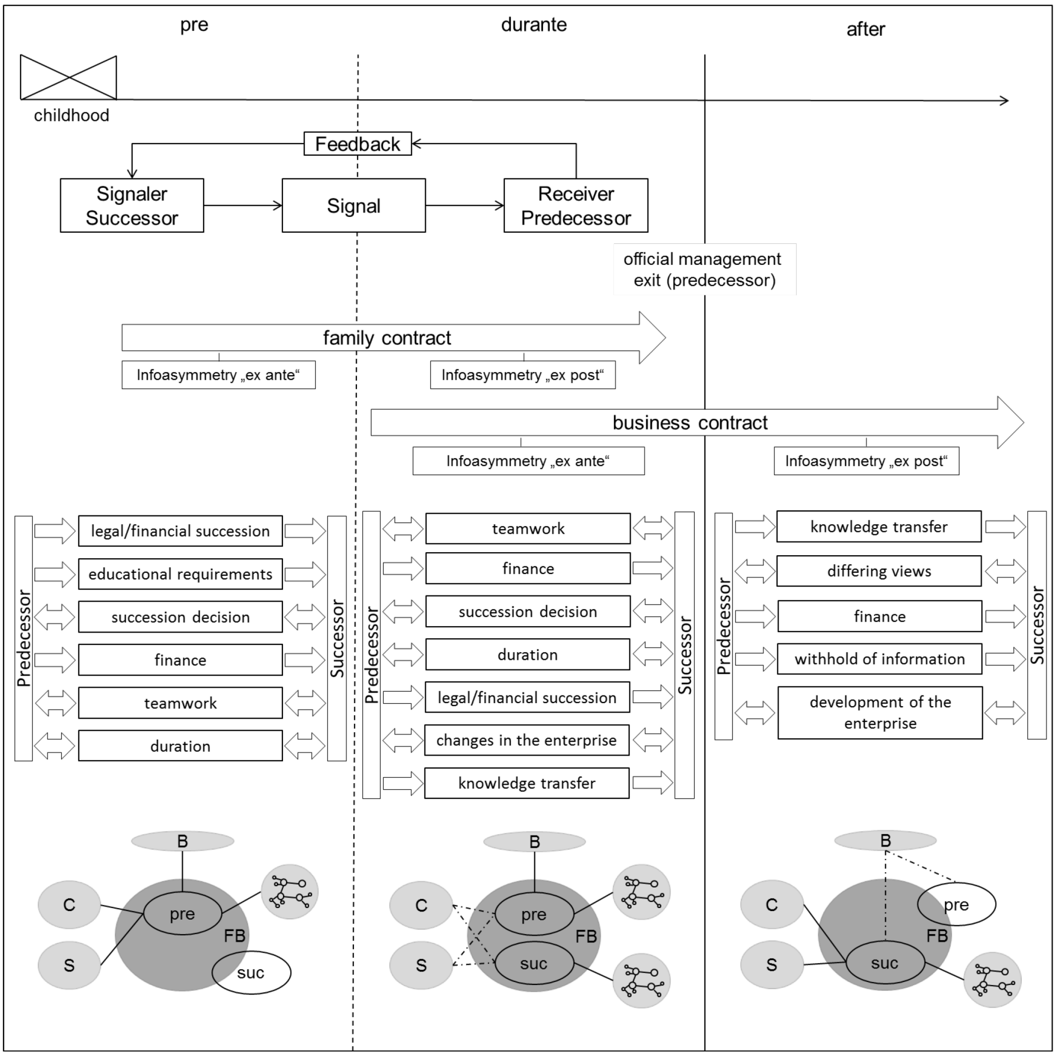
Chapter 3 focused on information asymmetries in family firms. The study showed that information asymmetries existing in family firms change, increase, and decrease over time. Prior research about succession in this framework particularly has referred to the stewardship theory to explain interpersonal problems between predecessors and successors. Researchers have argued that predecessors and successors act altruistically for the firm and its employees (Davis et al., 1997; Miller & Le Breton-Miller, 2006) and that there are reduced or no agency costs associated with opportunism (Davis et al., 2010; Pearson & Marler, 2010). This point of view suggests that there are no important information asymmetries but ignores that opportunistic succession behavior and significant information asymmetries exist within families (Madison et al., 2016). We demonstrated that there are in fact information asymmetries in internal family business succession. Moreover, we were able to assess psychological and business contracts and underline that in both contracting situations, information asymmetries occur. However, we also determined that over time, the types and levels of information asymmetries change. This offered hints for different kinds of information gaps and information problems, as well as ongoing processes in families and family businesses to try to reduce overtime in the succession process.

Chapter 4 focused on the selection of internal successors. By using signaling theory, the study tied together the theoretical framework in chapter 2 and the empirical findings in chapter 3. In this study, we argued that signaling takes place during internal successor selection, and family firms establish their own selection processes. Because of the existence of information asymmetries in family firms, a structured selection process is needed, and family firms and families try to establish such structures. From our observations, we proposed that the signaling game begins with the birth of potential successors and ends with a selection event for the management position, which is initiated by predecessors, successors, or necessity. This long timeframe allows potential successors to send signals that are perceived by the predecessor. In relation to the model in chapter 3 and the results regarding the development of information asymmetries over time, the signaling game changes over time, too: Whereas costly signals are sent and the signaling frequency is low during the childhoods of potential successors, the signaling frequency increases from adolescence onward until the selection event, and hard to fake signals increase in importance. Thus, a signaling process was identified. It is questionable whether all actors who are part of the signaling game are aware of this long-term process. To carry out the process effectively, it has to be realized by all actors. Moreover, the evaluation and feedback process is important, and this is influenced by subjective personal feelings because of the close relationships among individuals. Following this reasoning, negative signals are also important in this process and should be evaluated and predecessors should be open for looking for different exit options, if needed. To summarize the results, in the context of family business internal succession from a principal agent perspective, signaling is used to overcome information asymmetries related to selection.

In chapter 5, social capital transfer in family firms during succession was analyzed. In this study, we underlined that social capital has to be managed in the business succession process. The importance of social capital, as well as a likeness of predecessor and successor in relation to networking, represents an important finding. Social capital transfer should be integrated into some business succession transfer models (e.g., Le Breton-Miller et al., 2004); it also underline the nurturing process of successors - especially in relation to the information exchange of predecessors and successors in the succession process and the "hand over" of important contacts. According to Steier (2001), it is important to develop an accurate map of a firm's network structure. We found out that in most cases, there is a feeling for the network structure. In every case, the step-by-step integration of successors into the network was analyzed and various chances for renewal during this time were identified. Moreover, we found that when social capital is missing, external members are integrated into the top management team to balance this lack. These findings aligned with the professionalization research in family business (Stewart & Hitt, 2012). We also determined that most of the network-related knowledge is implicit. As a result, information asymmetries can arise. Furthermore, such asymmetries can result in a struggle for the family business if important network contacts are lost. Moreover, without knowing former contacts, there is no opportunity to use the *renewal of network effect.* Thus, this study showed that only some information is exchanged in a structured way; consequently, this could negatively influence the long-term survival of the family firm when the information splits are not sufficient. In contrast, this can have positive effects when sufficient information - particularly that which is most important - is exchanged. Thus, in this study about social capital, it was found that well-informed people can use their information about network contacts as an opportunity.

To conclude the results of the three studies, an overall model based on the model in chapter 2.5 was developed. The basic model was enriched with deeper insights concerning different aspects of the succession process or effects related to information asymmetries and processes to overcome these information asymmetries at the different stages. Incorporating these results, figure 19 shows an overall model of the findings of this dissertation.

Figure 19: Overall model of family business internal succession based on the empirical finding of this dissertation



Source: Author's illustration.

The developed model supports the understanding of business succession as a long-term, step-by-step process and underlines the notion that there is a time when the predecessor and successor are working together. The existence of information asymmetries in family businesses was illustrated through the different contracts and the underlying understanding of a principal agent situation in family business internal succession. These information asymmetries are in part reduced, for example, through a signaling process. In this dissertation, the signaling process ended with the management succession. In general, it can be stated that succession is a process involving different stages. This new model also supports the theoretical idea of Nordqvist et al., (2013), who found that business succession can be evaluated as an entrepreneurial process through the results of research on social capital. The study showed that social capital transfer is also a long-term process and that the time when both actors are working together is an important one. Moreover, it underlined that successors add their own social capital to the family firm network. Summarizing the current findings and the overall model, it can be stated that there are principal agent situations in internal family business succession. Because of all these different steps, there are also many different points in time when the process can fail. Opportunistic individuals acting in this process have different and not completely aligned goals; these much be aligned over time to the extent required for a successful succession, but family businesses have their own processes in place to prevent the struggles that can result from these situations.

6.1 Theoretical Implications

Each of the three empirical studies enhanced the existing knowledge about business succession from a principal agent theory point of view. Based on the implications and results of former studies, this thesis offered various slight reconceptualizations of succession as an entrepreneurial process (Nordqvist et al., 2013). Taken together, they contribute to the understanding of how family firms handle processes regarding recognizing information asymmetries, as well as the instruments used to overcome them. In this work, engagement with signaling was identified in the successor selection process. Moreover, processes for exchanging information on contacts and transferring the contacts themselves over time in the succession process were delineated. There are procedures that family firms create on their own to maintain a greater level of professionalism in the case of succession.

As mentioned above, this dissertation has provided deeper insights into business succession from a principal agent perspective. The first study revealed that various levels of information asymmetries exist in family business. This is a fundamental finding that was long overlooked in family business research because of the assumption that stewardship behavior dominates in family business (Madison et al., 2016). Due to this finding, the study can represent a new starting point for further research on principal agent behavior in family businesses. The results are in accordance with the first hints in the literature to the effect agency conflicts and agency costs could occur in family businesses (Gómez-Mejía et al., 2001); furthermore, they reinforce the point of view that asymmetric altruism, nepotism, and lack of self-control are all present in family business (Bergstrom, 1989; Bernheim & Stark, 1988; Madison et al., 2016; Schulze et al., 2001). Building on former studies, our findings showed that there are much greater, thematically broader information asymmetries than explained by the existing theories. Moreover, we found bilateral information asymmetries at every stage of succession; these are rarely discussed in the literature. Furthermore, our findings showed that these information asymmetries change over time. This was the starting point for the further studies in this research, which focused on the selection process and social capital transfer.

By investigating the selection process of family business internal successors, the second study contributed to different streams of literature. The study on signaling in family business showed that inherent processes in family firms to reduce information asymmetries already exist. In fact, family businesses make conscious decisions about the question of which candidate best fits the succession requirements. Moreover, signaling is used over a long timeframe in a unique signaling environment; this long-term process enables family firms to select and integrate the best candidate. Furthermore, this study contributed to the signaling theory research by developing new insights into the role of negative signals. In family firms, negative signals play a crucial role, as potential candidates leave the candidate pool by sending such negative signals.

The third study investigated social capital transfer during the business succession process. This study illustrated the family business members' awareness of their network. Moreover, it showed how the network changes over time through the exchange of information about important network contacts and the integration and reconceptualization of such family business networks. Following this, it also offered theoretical contributions to the research stream that understands succession from a principal agent point of view because the information exchange about network contacts is connected with power. Furthermore, in this study, we were able to show that the integration of successors in the network can offer opportunities to renew the network, while it can also force the predecessor to transfer network contacts and leave the network. Social capital transfer can help to make the agent (successor) the new owner; thus, it can assist in overcoming agency problems.

By integrating the three studies in an overall model, the roles of the different succession stages in the business succession process were illustrated. Information asymmetries decrease through structured information exchange processes. The predecessor and successor use different means to exchange information. Examples of these processes include, signaling, direct information, and hands-on training through joint meeting with important network partners. The research made contributions to the business succession, principal agent literature, and signaling theory literature, as well as to the literature about professionalization in family firms to a certain extent.

6.2 Managerial Implications

Family business owners can find many managerial implications in the modified overall model and the discussion section above. It should be underlined that information is the basis for decision making. Family businesses have to be aware of the blind spots between family members, which can influence the succession process itself by creating a more complicated selection process, as well as the long-term success after succession has taken place, because the successor must make decisions without all of the required information. Long-term planning and realization offer opportunities to transfer implicit information into explicit information, for example, through writing down important passwords or network contacts. Moreover, periodic team meetings (i.e., between successors and predecessors) with the clear goal of succession planning and transfer of information offer the possibility to align different goals between the different actors over time. This can be represent an opportunity to prevent conflicts between family members, which can also be crucial for family business succession because it can reduce information asymmetries, thereby diminishing problems.

Awareness of a selection process that is not random or predestined allows active, strategic control. Family businesses have the unique chance to select the perfect candidate over years, and this results in a competitive advantage. In addition, through selection from a pool of candidates, a strategic education is possible that fits into the family and the firm. Furthermore, awareness of negative signals showing that candidates have missing commitment or willingness to succeed offer family business owners the opportunity to think about exit strategies.

In the area of social capital transfer, there are also opportunities to change implicit information into explicit information. Awareness of important network contacts and the need of social capital transfer could be supported, for example, by advisors. In the family firm, through written documentation, customer relationship systems, or strategic meetings that focus on both existing networks and former network contacts, successors have the chance to make conscious decisions about whether they want to exploit or explore the existing network. Moreover, the integration of own network contacts into the existing network could be used as an opportunity for renewal of the business succession situation.

In sum, the overall model can help family firms by showing that there are information asymmetries between family members and that there is a need for information exchange on different levels. Awareness of the long-term, step-by-step process is important when it comes to directing sufficient resources and attention to handling this information exchange. Moreover, the alignment of the goals of the predecessor (principal) and successor (agent), which can be supported through information exchange, can be a success factor for the long-term survival of the family firm.

6.3 Limitations and Future Research

Specific limitations were discussed above for each study in this dissertation. However, a few limitations that touch on the study as a whole should be emphasized here. All of the studies were conducted with the aim of theory building through qualitative research. The goal was to review the extant literature in light of the qualitative findings and alternative explanations of the empirical research; thus, the intention of this dissertation was not to prove or falsify the results of the studies undertaken. Therefore, future research should build on the considerations highlighted in the different studies to empirically test their propositions.

The studies included family firms from the same country. This approach allowed a comparison of the sampled organization but also meant that cultural factors were disregarded. For example, the family and family dynamics can differ according to the cultural context, which could promote different agency or stewardship behavior. This might impose certain limitations on the generalizability of the representative findings in this research. Moreover, as with all qualitative research, alternative explanations can exist. Furthermore, some of the case study data analyzed here were collected by the co-authors of those studies rather than the author of the dissertation. However, while this may be a limitation in one respect, from another perspective, the positioning of an external observer allows an objective analytical process.

The results focusing on the interpersonal relationship between the predecessor and the successor can be underlined as a limitation because of the differences in family understandings (Klein, 2000). Moreover, it should be mentioned that several definitions of *family business* exist in the literature (Chrisman et al., 2005; Chua et al., 1999). This dissertation utilized a definition based on Chua et al., (1999) in the different case studies, and it is important to note that other definitions exist.

The dissertation utilized theories from several literature streams, specifically family business, principal agent theory, signaling theory, and social capital theory. The studies combined these fields, thereby providing methodological strength and answering calls for such research (Stewart & Miner, 2011). However, it has to be mentioned that such a use of several different literatures also presents challenges. Focusing on the theoretical lens of principal agency theory caused stewardship behavior in family firms, as another explanation for the phenomena analyzed in this dissertation, to be overlooked.

The dissertation in general and the concrete studies mainly focused on a single internal succession. Team succession was included at the sidelines of the research but was not addressed as a research topic. There were some hints that team succession could include further challenges for the selection process and social capital transfer. The addition of the team factor in the developed research questions could offer some interesting possibilities for further research. Furthermore, the different types of succession (e.g. internal, external, mixed, foundation) were not considered in this dissertation.

6.4 Conclusion

"As a general rule, the most successful man in life is the man who has the best information."

Benjamin Disraeli

This dissertation started with a quotation from Jane Austen that described what a good company is. It refers to well-informed people and a great deal of conversation. This dissertation focused on the individual level (e.g. predecessor and (potential) successor(s)). Family firms are known for a high founder centricity, and in later generations, the influence of the family; as a result, the family centricity is high. Particularly if only one person succeeds, this successor is a key factor influencing the company's sustained success. To be a well-informed person, an individual needs to gather as much information as possible. Such information allows the decision-making process to occur. Successors of family businesses need free space for decision making, and they need information to support their decisions. Many of these crucial pieces of information only exist in the minds of the predecessors, others are well documented in the firm, and still others are in flow between different network partners. It can be assumed that to gather all of this information in a coherent way, and then to understand and evaluate the data to be able to take good decisions and run the company, takes a great deal of conversation - and this takes time. Thus, by focusing on information exchange during business succession, this dissertation demonstrated that opportunistic individuals also act in family businesses. Moreover, it supported the observation of researchers from all over the world to the effect that succession in family business is a long-term, step-by-step process that requires planning, conversation, and realization. If this is understood by the former generation, the next generation can manage good firms and will represent the most successful successors due to the lower information asymmetries.

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Appendix

Appendix to Chapter 5.

Questionnaire for the successor

1. How long have you been working with the (predecessor)?

2. What are your important network contacts?
    a. How often do you talk with these network contacts?
    b. Which are the contacts you most depend on?

3. How important do you think a network is for the success of the business?

4. Have you transferred the following network contacts: bank, lawyer, tax consultant? Do you have new network contacts you would regard as advisors?

5. How did you handle the transfer?
    a. Did the predecessor transfer it personally—for example, through a meeting specifically to introduce you?
    b. Did you review the data in the family firms, such as databases, customer bills, and contracts with suppliers, to understand the network?
    c. Which former contracts do you use now? Have you integrated your own network with the existing one?

6. When do you think the successor was the sole contact person for a network contact?

7. How do you establish new contacts?