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The suitability of internal versus external successors: relevant knowledge types in family business succession

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Abstract: Understanding knowledge transfer in family firm succession is important for the survival of family firms. Previous research has begun to explore the suitability of internal versus external successor in family firms with regard to relevant knowledge types. This paper builds on the contingency model of family business succession in order to understand when family successors are preferred because of their family-specific experiential knowledge. A case study analysis from the German-Danish border region explores how a family firm has used internal successors for the last 12 successions. We argue that in industries where tacit knowledge forms the basis for competitive advantage, the use of internal successors can help family firms excel after a transition of power has occurred. Theoretical and practical implications are discussed to enhance the long-term perspective for family businesses.

Keywords: competitive advantage; experiential knowledge; external succession; family business management; genogram; internal succession; knowledge types; resource-based view; tacit knowledge; transaction cost economics.


Biographical notes: Britta Boyd is an Associate Professor of Business Administration at the University of Southern Denmark. Her PhD on Sustainable Management in Long-Lived Family Businesses – A Resource-based Analysis of Northern German Builder’s Providers was awarded from the University of Flensburg in Germany. Her main research interests focus on family businesses, entrepreneurship strategy, international marketing and sustainable management. She has published in various journals and books such as the Family Business Review, International Journal of Entrepreneurship and Small Business, International Journal of Management Practice and Family
Introduction: the value of intra-family succession

Business successions involve a change in managerial responsibility or the transfer of business ownership and control (Hodgetts and Kuratko, 1998, p.625). In this paper we are interested in the former, i.e. a new person taking over the management of a business. We deal with valuable knowledge underlying the management of a family business and leading to competitive advantage for it. Since our chain of arguments deals with the question when this knowledge can be better transferred to a family insider as opposed to a family outsider our focus is more on managing the family business than on implications of a certain ownership structure.

Succession presents an inevitable challenge for family firms and worldwide an increasing number of family businesses are facing succession (Astrachan et al., 2003). The relevance of understanding succession in family firms becomes clear when considering that an estimated 65% to 80% of all firms worldwide are family-owned businesses (Neubauer, 2003, p.269) and that successions are a major challenge for firms (Fox et al., 1996; Stavrou, 2003). It is estimated that in Germany about 50% of companies fail in handing their business over to the second generation and only 10% survive until the third generation (Wössner, 1998, p.22). Similar problems exist in Denmark and Austria (Lettmayr and Pichler, 2000, p.1) as well as in the USA and in Australia, where it has been estimated that only 30% of family businesses have succession plans in place (Logan, 2004).

Much of the literature on succession in family firms has focused on the effects of succession planning on long-term firm performance, and on the predictors of the succession process (Sharma et al., 2003; Sharma, 2004; Zahra and Sharma, 2004). While there is agreement in literature that succession planning is highly relevant for firm performance (Kets de Vries, 1993; Pitcher et al., 2000), there is less agreement regarding the preference for family versus non-family successors. The literature in this context provides general factors that facilitate or prevent successful succession processes.
resulting from a number of preceding succession events (Cabrera-Suárez et al., 2001). De Massis et al. (2008) for example identify the following five categories of antecedent factors preventing succession: (1) individual factors (2) relation factors (3) context factors (4) financial factors and (5) process factors. Twelve factors in the succession process with associated conditions favouring or hindering successful succession are elaborated by Barach and Ganitsky (1995).

Succession has been a highly relevant research topic over the last decades (Handler, 1994) and still is an intensely researched topic in the field of family business (e.g. Molly et al., 2010; Whatley, 2011; Lussier and Sonfield, 2012). Chrisman et al. (2010) and Debicki et al. (2009) provide meta-analyses of the literature in this field that also back the relevance of the topic and give an overview of the different angles taken.

The focus of our research is on one relevant question of a succession building on the general factors outlined in this literature, namely whether a family member or an outsider should take over the management of the firm. While internal succession mainly is associated with nepotism in many investigations of succession (Gersick et al., 1997; Pollak, 1985; Barach et al., 1988; Yeung, 2000), current literature suggests that valuable idiosyncratic knowledge of family members might be a strategic rationale for internal succession (Bjuggren and Sund, 2002; Lee et al., 2003; Royer et al., 2008; Sardeshmukh and Corbett, 2012).

Recently, family business researchers have proposed the contingency model of family business succession to explain when family businesses would benefit from a family vs. a non-family successor (Royer et al., 2008). This model suggests that the relevant type of knowledge to realise competitive advantage under certain contextual factors can help evaluate which successor would be more appropriate to help organisations perform better after a succession has occurred. Based on the model, internal succession is preferred when there is a high relevance of tacit family business-specific knowledge to gain competitive advantage.

Building on this idea, this paper presents a case study of a family firm in the eighth generation investigating 12 successions. Even though the investigated family business now is in the hands of the eighth generation, 12 successions could be observed so far. The discrepancy of numbers occurs from dividing the company into two separate entities in the fourth generation. Along with this case analysis we discuss and further develop the contingency model of family business succession focusing on the situation where internal successors are suggested to be the best option. The objective is not only to highlight knowledge types that are easier to transfer to internal successors, but also to identify context factors that facilitate family internal succession. The identification and utilisation of tacit experiential knowledge that may build the basis for competitive strategic advantage in family businesses is regarded as a relevant field of investigation. Therefore, the aim of this paper is to gain further knowledge about context factors where family members are more suitable successors than external applicants.

Specifically the following research questions are addressed in this study:

1. What types of knowledge are valuable in terms of competitive advantage generation and can at the same time be transferred to internal successors in a more efficient and effective way?
2. Which context factors characterise favourable situations for internal family business succession?
3. Which lessons can be learned for family businesses facing succession?
The contingency model of family business succession (Royer et al., 2008) is based on a transaction cost perspective (Williamson, 1985) which here is complemented by a resource-oriented chain of arguments (Peteraf, 1993) and analysed within the process of knowledge transfer (Szulanski, 1999). This leads to a more in-depth understanding of different knowledge types as well as the ‘atmosphere’ in which the knowledge is embedded in the context of family business succession. Referring to transaction cost economics literature (for an overview see Picot et al., 2012, pp.76–77), atmosphere here is understood in terms of “[...] the interactions between transactions that are technologically separable but are joined and have systems consequences” (Williamson, 1995, p.232). It contains socio-cultural as well as technical factors that impact transaction costs which are not included in the simple economic model since actors may value factors such as friendship in a certain way (Williamson, 1975, p. 37) that cannot be explained by the simple economic model. In our research context, opportunistic behaviour may for instances be reduced by the fact that the actors involved in the succession stem from one family. It then becomes harder to play opportunistically because such behaviour may destroy a business as well as a personal relationship. Therefore, the transaction atmosphere is a relevant concept to be taken into our considerations.

In summary, we are interested in an in-depth understanding of the relations between certain valuable resources in the form of idiosyncratic and other experiential knowledge and competitive advantage generation and the adherent consequences for the transfer of this knowledge to internal successors compared to external successors in the respective transaction atmosphere.

This paper builds upon Royer et al.’s (2008) contingency model of family business succession in order to provide a better conceptualisation of situations where an inside succession appears preferable because of relevant family-specific experiential knowledge. Therefore this concept will be further discussed in Section 2 of this paper. The focus here lies not only on describing the concept in detail but also on further elaborating it by specifying the relevant knowledge types in the context of family business succession. The relevant literature from the resource-based and knowledge-based views is taken into account here. In Section 4, the concept will then be illustrated with a family business case study from the German-Danish border region, after having explained the methodology of our study in Section 3. An almost 300 year old family firm is analysed with regard to the successions in the firm’s history in an in-depth case study. Since the contingency model of family business succession has previously been tested in a quantitative study (Royer et al., 2008), the aim of the method chosen here is to gain more in-depth understanding of the underlying knowledge types and the contextual factors. Finally, theoretical and pragmatic implications are derived in order to provide a long term perspective for family businesses.

2 The contingency model of family business succession and strategically relevant knowledge types

Certain valuable knowledge embedded in the human resources of a firm on different levels forms one relevant basis for competitive advantage realisation. All firms have to find ways not to lose such valuable knowledge in the case of succession. Transferring
knowledge can be difficult because of the existence of certain barriers to knowledge transfer, especially regarding the transfer of tacit knowledge. The contingency model of family business succession systematises succession situations with regard to the extent of the relevance of experiential family business-specific knowledge on the one hand and the extent of the relevance of general and technical industry-specific knowledge on the other. The model elements are outlined in the following section, where our considerations regarding knowledge types are elaborated. The underlying factors of competitive advantage realisation are then further specified and linked to the context of family businesses.

2.1 Knowledge types, competitive advantage and succession

In a resource-based thinking framework resources have to be valuable, rare, inimitable and appropriable to be a basis for competitive advantage (Barney, 1991). One can differentiate between tangible resources (such as machinery or buildings) and intangible resources (such as reputation or knowledge). Usually intangible resources are more a basis for competitive advantage than tangible ones (Itami, 1987; Black and Boal, 1994; Rao, 1994). Human resources are usually more mobile than other intangible resources (Teece et al., 1997) so that the appropriability of the resulting rents is a relevant concern here.

Knowledge often is embedded in human resources which are regarded as playing a major role generating competitive advantage (Cummings and Marcus, 1994). Since competitive advantage may be conceptualised in terms of resources that are valuable, difficult to imitate and appropriable for the firm (Collis and Montgomery, 1996) it seems useful to evaluate knowledge as a relevant resource in terms of the criteria provided by the resource-based view of the firm (Peteraf, 1993).

Skills, abilities and learning capacity are knowledge-based resources that can be developed through experience and formal training (DeNisi et al., 2003). Next to knowledge-based resources social resources often play a relevant role regarding the realisation of competitive advantage. Social resources refer to “personal relationships that bind together members of an organisation as well as relationships that link organisational members to other external sources of human capital” (DeNisi et al., 2003, p.6). To build competitive advantage in firms it is regarded as not sufficient to try to find talents on the market and employ them. It rather is seen as necessary to build certain structures in a firm that enable the organisation to appropriate the resulting rents from these resources and thus gain competitive advantage (DeNisi et al., 2003, p.7). Here, so-called isolating mechanisms are crucial – they lead to imitation barriers and at the same time prevent that resources can be separated and be sold via market mechanisms (Barney, 1986). In this context, socially complex tacit knowledge embedded in an organisation is regarded as a potentially very valuable intangible resource (Reed and DeFillippi, 1990; Barney, 1991).

So-called tacit knowledge, a form of knowledge that cannot be verbalised or formalised, includes mental schemes, beliefs and insights, but also the ability, know-how and skills to perform tasks (Nonaka and Takeuchi, 1995). Polanyi introduced the term ‘tacit knowledge’ to acknowledge that “we can know more than we can tell” (1966/1997, p.136). This statement implies that some knowledge can only be acquired by ‘learning by doing’. Hayek (1945, p.523) suggests that “all economic problems are knowledge problems arising out of uncertainty.” Transaction costs can be linked with asset
idiosyncrasy in situations where there is no market for these assets or when technology paradigm changes occur. One relevant aspect in the transaction cost economic thinking framework (Williamson, 1989) lies in so-called knowledge idiosyncrasy, which is caused by tacit or implicit knowledge. In the family business literature in relation to tacit knowledge it is suggested that knowledge idiosyncrasy can lead to a situation where it is more valuable for a family business to be left within the family (Bjuggren and Sund, 2002).

With regard to the succession for tacit knowledge this means that the “[...] involvement provides the next generation with crucial tacit business knowledge and skills, facilitating interpersonal work relationships between incumbents and next-generation leaders and building credibility and legitimacy for the next generation” (Mazzola et al., 2008). Knowledge integration or the combination of family members’ specialised knowledge may lead to the development of valuable capabilities regarding the realisation of competitive advantage. The ability, willingness and relationship conflicts in this context can be mentioned as factors influencing knowledge integration (Chirico and Salvato, 2008) and therefore characterising the transaction atmosphere of succession.

Tacit knowledge is difficult to transfer, due to the fact that it comes into being and develops by the interaction between individuals and the adherent situation (Cabrera-Suárez et al., 2001). Tacit knowledge embedded in the founder of a firm may represent a strategic asset when transferred within the family business. To create an environment that encourages knowledge transfer Cabrera-Suárez et al. (2001) suggest that the owner should be proud of the successor’s achievements and be willing to accept new approaches while the successor should appreciate the contribution of his or her predecessor and value established practices when integrating the knowledge.

When underlying tacit knowledge is valuable with regard to competitive advantage realisation of a family business in its market environment, the potential advantages of a family-insider as a successor may be two-fold (Royer et al., 2008): Firstly, opportunistic behaviour of outside agents may be more likely than the opportunistic behaviour of inside agents embedded in the (social) family structures which are characterised by a higher degree of mutual trust and honesty (Longenecker and Schoen, 1978; Pollak, 1985; Dyer and Handler, 1994). Secondly, in a life-long learning process family members may have better access to tacit knowledge embedded in the family firm due to the outlined specifics of tacit knowledge. Tacit knowledge is characterised by so-called stickiness (van Hippel, 1994), i.e. it is often hard to transfer this knowledge to other settings (Szulanski, 1996), making it even more valuable in terms of creating isolating mechanisms and thus having the potential to build the basis of sustainable competitive advantage.

While tacit knowledge thus is related to experience, explicit knowledge can be codified and articulated and be given to others in a formal way. While tacit knowledge relates to “know how”, explicit knowledge can be described rather as “know that” (Ryle, 1949). Tacit knowledge comes into being in a certain context and is transferred by analogies and metaphors compared to explicit knowledge that may be transferred by manuals and in other formalised ways not specifically connected to the context to that extent (Patriotta, 2003, p.29).

Building on this understanding of the relation between competitive advantage realisation and knowledge we differentiate here between different types of knowledge. General knowledge can be mentioned as the type of knowledge easiest to be transferred
but also for that reason least relevant for competitive advantage realisation. An example for general knowledge would be the skill to add up numbers. Another type of knowledge that can be categorised as explicit knowledge is so-called technical knowledge. This knowledge is not so easy to gain and exchange as general knowledge. However, it can easily be transferred to others who have a similar background: for example knowledge regarding the chemical structure of a new pharmaceutical can easily be transferred to a person with a relevant background in chemistry and pharmacy (Jensen and Meckling, 1992; Huang, 1999; Royer et al., 2008).

Knowledge types that fall into the category of tacit knowledge are seen in experiential knowledge as “intuitive knowledge, based upon training and experience, which is incapable of translation into written form” (Williamson, 1975; see also Bonus, 1986). This kind of knowledge for example plays a central role in the area of craftmanship (Royer et al., 2008).

To better understand the relation between internal succession, knowledge and competitive advantage realisation, we here differentiate between three types of experiential knowledge that are relevant in our research: idiosyncratic knowledge, “subject-related” experiential knowledge and “network-related” experiential knowledge. While idiosyncratic knowledge refers to detailed knowledge about time- and location-specific conditions that cannot be formalised, subject-related experiential knowledge refers to such knowledge that can be experienced without a relation to time or location conditions but depends on the skills or abilities in relation to a certain material or product. We here have in mind knowledge of individuals in a certain field of arts, craftmanship or other fields (Jensen and Meckling, 1992; Patriotta, 2007; Royer et al., 2008). As a third type network-related experiential knowledge is of considerable importance. Through informal rules in social networks cooperative behaviour with other people, firms and communities can be enforced (Bjuggeren and Sund, 2002). Basly (2005) noticed that family businesses are characterised by social networks which then have a positive impact on the development of more knowledge. Even though it might sometimes be difficult to put knowledge clearly in just one of the suggested categories, we consider it useful to differentiate between these three types of knowledge to highlight the main drivers for competitive advantage realisation. All outlined ideal typical types of knowledge may have an impact on the competitiveness of a certain business. However, in different contexts the relevance of the different types may have a different degree of relevance.

2.2 The resulting elements of the model

The contingency model of family business succession brings together the types of knowledge relevant for competitive advantage realisation with the special value of inside family succession. In business situations characterised by a high relevance of experiential family-business-specific knowledge, internal successions have certain advantages with regard to knowledge acquisition compared to external successors.

Figure 1 illustrates the dimensions of the contingency model of family business succession and relates them to the success probability of an internal versus an external succession in a family firm.
Figure 1  The contingency model of family business succession (see online version for colours)

<table>
<thead>
<tr>
<th>Relevance of general and technical industry-specific knowledge</th>
<th>Relevance of experiential family business-specific knowledge</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOW</td>
<td></td>
</tr>
<tr>
<td>HIGH</td>
<td></td>
</tr>
</tbody>
</table>
| Inside and outside option have same probability to be success promising  
(I = O) |
| Outside option has higher probability of being success promising because of the greater range of talents with general/technical knowledge available on the market  
(I < O) |
| Inside option has higher probability of being success promising because of access to experiential knowledge  
(I > O) |
| Inside option is preferable (I > O), if: ISGKI + ISTKI + FSEKI ≥ ISGKO + ISTKO |

ISGKI = Industry-Specific General Knowledge of ‘inside-family successor’
ISTKI = Industry-Specific Technical Knowledge of ‘inside-family successor’
FSEKI = Family Business-Specific Experiential Knowledge of ‘inside-family successor’
ISGKO = Industry-Specific General Knowledge of ‘outside-family successor’
ISTKO = Industry-Specific Technical Knowledge of ‘outside-family successor’.

Source: Royer et al., 2008: 19, arrow between square IV and II added by authors to illustrate the focus of this study

For the current research the focus is on squares III and IV illustrated in Figure 1. While square III illustrates situations characterised by a high relevance of experiential family business-specific knowledge and at the same time a low relevance of general and technical industry-specific knowledge, square IV deals with situations where all suggested knowledge types are of a high relevance.

In square III the preference for an internal successor is based on the reasoning that the valuable resources here are so deeply embedded in the context that it is merely impossible for an outsider to get access to them. Examples for firms fitting in this category are found in the area of construction or different crafts (Royer et al., 2008). Empirical studies found for such firms a realisation of 100% for construction and 300% for crafts more turnover per employee in family business than in non-family businesses (Klein, 2000). In this category we find small and medium sized businesses handed down from generation to generation.

In square IV, the internal successor may still fit better due to access to the family business-specific experiential knowledge. However, because of the relevance of general and technical knowledge with regard to competitive advantage realisation, an internal
successor may not rely exclusively on this knowledge. Special machine manufacturers or manufacturers of musical instruments on a larger scale fit into this category. Such firms are often medium-sized businesses in certain niches (Royer et al., 2008).

Building on the existing research (i.e. the sketched model as well as the resource-based thinking outlined in Section 2.1 which complements the model and further elaborates the underlying knowledge types) we undertook an in-depth single case study for a family firm in the eighth generation to confront the developed chain of arguments with qualitative data. The used methodology and the findings are outlined in the following sections.

3 Methodology

When ‘how’ or ‘why’ questions at multiple levels of analysis are addressed, combined with little control of investigators over events and a contemporary phenomenon is in the centre of attention, case studies are the preferred strategy (Yin, 2002). This is the case for this research project. The aim of the case study analysis here lies in confronting the chain of arguments developed in Section 2 with empirical data. The research object is a family business in the eighth generation and the adherent successful successions to family-insider managers of the past are defined here as keeping the business in the family as well as surviving. Our chain of arguments here also refers to the resource-based view of the firm. We understand the investigated knowledge as a valuable resource to gain competitive advantage (see Section 2). This knowledge may be kept in the business by choosing an internal successor.

It is seen as useful to illustrate general facts or theoretical concepts by cases (Boos, 1992). Case studies allow the researcher to use different types of evidence and come to findings in a triangulating fashion. Therefore in this research a mix of data has been acquired and aggregated: main data sources were an in-depth interview as well as the analysis of relevant documents. The contingency model of family business succession has previously been empirically tested in a study of 860 family businesses (Royer et al., 2008) In the current study we are interested in getting more in-depth knowledge especially for situations where there is a suggested preference for internal succession (as illustrated in squares III and IV).

In March 2010 the main interview was carried out for two hours with one of the owners regarding relevant knowledge for succession. This interview partner was chosen because he previously worked on documenting the family history and had an extensive knowledge of the whole business. A first interview with the same person conducted in March 2005 for one hour focussed on sustainable management practices. In the same survey an employee was interviewed for 15 minutes two months later (Boyd, 2007). This previous contact with the company helped when carrying out the case analysis. The interview transcripts, historical documents and books handed out in the interviews (Schütt, 1963; Flensburger Tageblatt, 1988; N.N., 1988; HBK, 1992; Kraack, 1998), journal and newspaper articles (Bösche and Gelbke, 2006; N.N., 2008; N.N., 2009a; N.N., 2009b; Petersen, 2010) as well as other available information on the company have been taken into account for the analysis.

Thus, according to the principles of data collection (Yin, 2002) multiple sources of evidence were collected, documented and structured in a case study database and
analysed following a chain of evidence outlined in the conceptual part of this paper. In addition to the three interviews, observations in the shops and offices and available secondary data were included in the researcher’s evaluation.

The main interview consists of five parts (see Appendix A). After a short introduction to the research questions and the aim of the study, the first questions were related to contextual factors in the specific industry and how this led to successful successions. In a second part the owner was asked to evaluate the relevance of networks with customers, suppliers, employees and competitors on a rating scale from 1 to 5. The next questions related to the importance of general managerial skills and knowledge. The fourth part investigated the significance of family relations and structures, whereas in the last section the questionnaire focussed on the significance of each succession. The answers from the main interview were completed with information collected from the above mentioned interviews, documents and articles. Some additional questions regarding certain persons in the company history or parts of the family business could afterwards be answered in an informal conversation.

The case study is related to one firm that contains multiple cases of succession over the last 300 years, adding up to twelve internal successions. The units of analysis are the different succession processes in the firm’s history.

In the following part our findings are presented with regard to the suggested situations characterised by a high relevance of family business-specific knowledge to realise competitive advantage. After explaining the methodology used, we describe the case with a focus on the successful successions of the past. Building on that, we relate the knowledge types and the other elements of the contingency model of family business succession to the case in more detail. The discussion of the findings is integrated in the final part of this section where the contingency model of family business succession is discussed in the context of the case study findings.

4 The case of HBK Dethleffsen: illustrating the concept

This section is divided into two parts. First, all the successions in the Dethleffsen family business that have taken place since the company has been founded in 1738 are described. The described successions are then discussed in the context of the contingency model of family business succession.

4.1 Successions in the Dethleffsen family business

At the age of 25 Christian Dethleffsen founded a trading business in 1738. His father and an older brother died when sailing in the North of Denmark when he was 13 years old. As youngest of eight siblings Christian built up a flourishing overseas trading business dealing with agricultural goods, spirits, bricks and wood. The company split up into two businesses in the 4th generation. Today the wood trade part named HBK Dethleffsen (the name stands for ‘Holz und Baustoff Kompanie’ meaning Wood and Building Material Company) is still run as a family business. The distillery part trading as Hermann G. Dethleffsen was sold in 1997 and therefore lost the status as being family-owned. Table 1 shows all successions mentioning the year of the generational change and the name of the successor.
Table 1  Overview of the Dethleffsen succession processes

<table>
<thead>
<tr>
<th>No.</th>
<th>Year</th>
<th>Name of successor</th>
<th>Succession and contextual factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1793</td>
<td>Lorenz</td>
<td>Two years after his oldest son did not return from the West Indies the founder Christian passed away. The business got into trouble with the Danish national bankruptcy and when Norway split from the Danish state. In 1820 profits were less than a third of what they had been before the war.</td>
</tr>
<tr>
<td>2</td>
<td>1825</td>
<td>Botilla</td>
<td>When Lorenz died in 1825, his widow Botilla Margaretha managed the business. This was the only time in the long family tradition that a female ran the business alone.</td>
</tr>
<tr>
<td>3</td>
<td>1830</td>
<td>Christian</td>
<td>Botilla’s two sons took over. Lorenz was responsible for the West Indies trade but died six years later. The business then run by Christian alone suffered little during the Schleswig-Holstein upheaval and the world economic crisis in the 1850s.</td>
</tr>
<tr>
<td>4</td>
<td>1862</td>
<td>Diederich I and</td>
<td>Christian left the business to his two sons. Only two years later the German-Danish war broke out and Flensburg was no longer part of the Danish Kingdom. In his will Christian advised his sons to split the business into the wood trade and distillery, which they decided to do in 1870.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hermann Georg</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>1870</td>
<td>Diederich I</td>
<td>The wood trade part of the business was led by the older brother of Hermann Georg I. Four years later he built the first steam-powered sawmill in Flensburg.</td>
</tr>
<tr>
<td>6</td>
<td>1894</td>
<td>Diederich II</td>
<td>Diederich II extended and modernised the business. Despite the economic downturn during and after the First World War, he managed to set up a limited partnership with his three children and son-in-law in 1924. In 1928 they bought the trading company Andreas Christiansen in Bredstedt.</td>
</tr>
<tr>
<td></td>
<td>1924</td>
<td>Diederich III</td>
<td>Diederich III was a well-educated tradesman with experience from several German wood trading companies. He retired from the business in 1933 because he did not want to collaborate with the Nazi regime. After the Second World War he recommenced importing wood.</td>
</tr>
<tr>
<td>7</td>
<td>1951</td>
<td>Gerhard</td>
<td>The son of Diederich III stepped into the business after his education in Germany, Sweden and Denmark. In 1957 he became president and three years later moved the business to the industrial harbour (Flensburger Tageblatt, 1988).</td>
</tr>
<tr>
<td>8</td>
<td>1992</td>
<td>Hans August and</td>
<td>HBK Dethleffsen is now owned by Gerhard’s younger brother Hans August and his son Hayo in the 7th and 8th generation. The family business is situated in three locations. The head offices are in Bredstedt, Treia provides mainly building material and Flensburg offers a broad product range. In 2009 the turnover reached 30 million Euro with 120 employees (N. N., 2009a).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hayo</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>1907</td>
<td>Hermann G. II</td>
<td>The distillery part was handed over by Hermann Georg I. As a trained farmer his son had to take over because the older brother died at a young age. In 1911 he decided to buy the recipe and brand of ‘Bommerlunder’ named after a Danish village where the barkeeper received the recipe in 1760 from a French soldier who could not pay his bill. After a few critical years during the First World War, Hermann G. II took over several distilleries among them Balle and Andresen.</td>
</tr>
</tbody>
</table>
**Table 1** Overview of the Dethleffsen succession processes (continued)

<table>
<thead>
<tr>
<th>No.</th>
<th>Year</th>
<th>Name of successor</th>
<th>Succession and contextual factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>1929</td>
<td>Hermann G. III</td>
<td>Hermann Georg III joined the company after working in the US for three years. The younger brother Lorenz studied in Cologne, gained work experience abroad and joined the business in 1932. Like his father and brother he was engaged in charitable organisations like the Red Cross. Shortly after the two brothers took over the business in 1929 and 1933, Hermann G. II passed away.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>and Lorenz</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>1957</td>
<td>Hermann G. IV</td>
<td>The two brothers Hermann G. III and Lorenz died early at the age of 55 and 57, which necessitated the cousins Hermann G. IV and Hans to run the business. When Hermann G. IV died at the age of 44, Hans diversified the business into other spirits and also pharmaceutical products.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>and Hans</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>1994</td>
<td>Hermann G. V</td>
<td>The two eldest sons of the cousins took over the business. Soon after in 1997 the family business was sold to the Berentzen group situated in Lower Saxony, Germany (Flensburger Tageblatt, 1988; Petersen, 2010).</td>
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**Figure 2** The Dethleffsen family genogram

There are a few aspects which could not be explained in the overview of the succession processes. Therefore a family tree is created to show certain structures and contextual factors in a timeline. Figure 2 shows the family genogram as a general part of family business assessment, used as a tool to illustrate the family business membership and successions. The creation of a genogram involves mapping the family structure and recording family information such as successions and other events (McGoldrick...
The suitability of internal versus external successors

and Gerson, 1985; Gillis-Donovan and Moynihan-Bradt, 1990). The type of genogram depends on the nature of interest (Hoy and Sharma, 2010). For this study the year in which the business was handed over is abbreviated with s for ‘succession’ and m stands for ‘married with’. Special events are marked with a dotted line.

There were seven or more siblings in each family until the fifth generation, but some of them died early or chose other professions outside the business. In the later generations an average of four children were born in every family. Only family members involved in running the business are mentioned here in the genogram. The two owners of the wood trade Hans August and his nephew Hayo are here marked with a solid line.

4.2 Case study results in the context of the contingency model

To illustrate the concept for the selected case regarding competitive advantages of internal succession the resources, knowledge types, transaction atmosphere and contextual factors in the succession processes are to be further highlighted. The focus here lies on the part of the family business located in the building industry. The building industry and here the special case of a builders’ provider is regarded in this section.

The industry is characterised by small to medium sized family businesses. Today, most companies are organised in a variety of networks and cooperatives to gain cost advantages in a highly competitive environment. Associations not only focus on a national but also on a transnational level (Boyd, 2007; N.N., 2009b; BDB, 2010). This indicates an increasingly high relevance of general and technical industry-specific knowledge in the builders’ providers industry over the time. Further, the relevance of idiosyncratic family business-specific knowledge can be regarded as high to a different degree for different time phases of the long family business history. As square IV in the contingency model of family business succession (Figure 1) suggests, the preference of an internal successor depends in this case on the degree of acquired family business-specific experiential knowledge as well as relevant industry-specific knowledge. This will be further investigated in the following analysis of the succession processes outlined before.

The analysis of the data shows differences in the succession processes from the fourth generation onwards. First results can be gained comparing the two business segments wood trade and distillery. Regarding the second research question the contextual factors in the two segments were different. In the wood trade there was a clear succession rule that only one of the sons may take over the business. The distillery business had two brothers leading the business in the sixth generation, resulting in a cousin consortium in the seventh and selling the family business in the eighth generation. Most of the owners in this distillery segment died at relatively young ages, which made it more difficult for the successors to learn about the family business and gain relevant family business-specific experiential knowledge from their predecessors.

Addressing the first research question and referring to the three knowledge types elaborated in part 2.1 it can be assumed that not the subject-related experiential knowledge is of particular importance but rather the idiosyncratic and predominantly the network-related experiential knowledge. Regional networks were stated to be much more important in the first generations, because of business deals made on a personal level. More recently, knowledge gained through international industry-related networks becomes a central concern. This knowledge can be seen as less relevant for the internal
succession decision, because it can also be acquired by an outsider who gained work experience in the industry. Internal successors therefore are competing with suitable external successors to a higher degree.

In general, a shift in the relevance of knowledge types can be observed. Looking at square IV in the contingency model (Figure 1) the relevance of experiential family business-specific knowledge was much higher in the early generations, because personal and regional networks have of late become less important. The relevance of industry-specific knowledge was not so high in early generations but became more important with a broader product range and an increasing diversification of the family business.

In the past, the core drivers for competitive advantage realisation of the investigated family business in the wood trade mainly have been idiosyncratic knowledge and network related experiential knowledge. This made it advantageous to leave the business in the family. The potential successors learned from a very early age about the relevant business factors and had access to business networks that were closed to external applicants. With changes in the industry, however, these factors lost some of their relevance. Over time the wood trade experienced a significant internationalisation as well as specialisation. The specialisation manifests itself in terms of many new areas of relevance in competition. For example new concerns about energy-saving in the area of construction led to an increasing amount of technical knowledge relevant in the business.

This development has consequences for the succession processes in the business and refers to the third research question. As long as the family business-specific knowledge types had the highest value for competitive advantage realisation the internal successors were the most suitable ones. This is reflected in the long history of successful successions in the investigated firm. The family business-specific knowledge types, i.e. the idiosyncratic and network-related experiential knowledge, have been characterised by value, rareness, inimitability and appropriability in the past: they were valuable since being useful to compete successfully with others in the same industry. Their rareness and inimitability was due to the path dependency in developing the relations to supplier and customer networks as well as the knowledge about products. Further the appropriability could be secured by internal successions. The mobility of the successors has been limited due to their social integration into the family. The favourable transaction atmosphere in the family firm helped to find trustworthy successors from inside the family with a lower potential for opportunistic behaviour than outsiders. They have not only been socialised in the family but were also motivated by the responsibility for their own family to keep the business sustainable.

The situation only changed in the recent decades with globalisation intruding into industries like the wood trade. Better transportation possibilities as well as the massive improvement of communication technology made regional markets more accessible for competitors from other regions. Changing customer demands regarding building material and an increasing sophistication of different building materials led to a specialisation implying a higher relevance of technical knowledge for the generation of competitive advantage.

The described changes in the drivers for competitive advantage realisation from the firm environment had clear implications for the valuable firm internal resources. Still, to some degree the family business-specific knowledge types play a relevant role. However, the dominance of other resources such as specialist knowledge in the area of energy-saving building material and techniques is increasing. Personal networks with regard to
suppliers at the same time lost relevance because of a consolidation in the area of suppliers that led to larger suppliers which require less a personal and more a professional (rather standardised) relationship management.

In summary, we observe the tendency of the firm to move from square IV of Figure 1 to square II. For the future the value of internal succession thus has to be questioned. If a highly qualified family member is available (who has acquired the necessary technical and experiential knowledge) he or she may be more suitable than an external successor. However, there is a wide range of talents available on the human resources market which makes this less likely. This also is reflected in the fact that at the moment it seems very likely for the investigated firm that the next succession for the first time will not be from the family.

5 Concluding remarks regarding internal succession in family firms

One conclusion derived here is that it may be of real value with regard to competitive advantage realisation to choose a family insider as a successor. Nepotism is far from being the sole driver for internal succession solutions. It rather can be documented that different types of family business-specific knowledge are available to internal successors and hard to access for outsiders. As long as such knowledge types (i.e. idiosyncratic, subject-related and network-related experiential knowledge) are the main drivers of competitive advantage, family businesses can create sustainable competitive advantage when keeping the company in the family. It may be hard to maintain these advantages when an outsider takes over. Being aware of this, family businesses have to establish their own set of rules in the family to stay competitive. Therefore we consider it relevant that these drivers of competitive advantage realisation are highlighted and investigated. This research fulfilled this aim. When family businesses better understand the underlying success factors they may choose more adequate avenues to stay competitive.

Our study wants to contribute to the further exploration of the question when internal successors have certain advantages with regard to the management of a family business. Our investigation thereby links into the discussion of family businesses from a resource-based perspective (e.g. Habbershon and Williams 1999; Cabrera-Suárez, 2001; Habbershon, Williams and MacMillan, 2003). Certain knowledge types are elaborated in our paper which are of relevance for the generation of competitive advantage by family firms. This is compatible with the idea of Habbershon and Williams (1999, p.11) that a “unique bundle of resources a particular firm has because of the systems interaction between the family, its individual members, and the business” can be found in family businesses. They refer to this bundle of resources as ‘familiness’. Our knowledge types and the skills to transfer them in family firms may further contribute to the operationalisation of this concept.

We differentiate between three types of experiential knowledge to better understand the relations between internal succession, knowledge and competitive advantage realisation: idiosyncratic knowledge as detailed knowledge about time- and location-specific conditions, “subject-related” experiential knowledge that depends on the skills or abilities in relation to a certain material or product and “network-related” experiential knowledge referring to family-specific social networks which are relevant for the
competitiveness of a business. These ideal-typical types of knowledge have an impact on potential competitive advantages of a certain business. However, different contextual factors impact on the respective degree of relevance.

Family firms have advantages with regard to the transfer of the mentioned relevant knowledge to the next generation of managers if the company is handed down inside the family. For family firms it is easier than for other businesses to transfer such knowledge that can be only appropriated in learning by doing processes since family internal successors “grow up” in the family business and the related networks. This chain of arguments makes clear that we could further develop a resource-based understanding of family businesses and their strategic advantages. Thereby we have taken into account Debicki et al.’s (2009, p.162) suggestion that “the resource based view should also be applied to other topics of importance to family firms such as [...] succession.”

Furthermore, the investigated case demonstrates that contextual factors may be dynamic in nature. They may change in a fashion that leads to a situation where next to the family business specific-knowledge, increasingly industry-specific and technical knowledge become relevant. Taking these dynamics into account is a relevant point of reference for future research and is in line with the findings of Sardeshmukh and Corbett (2012) who on the basis of a study of 119 family firms come to the suggestion that an internal successor in a family business “needs to balance general human capital along with the family firm-specific human capital to successfully undertake strategic renewal” (Sardeshmukh and Corbett, 2012, p.121).

Next to creating awareness in family business of the underlying valuable resources so that these can be fostered, this knowledge is seen as useful when societal and economic support for family firms is concerned. Only if the value of internal succession in combination with certain context factors is well understood, can useful support programmes and legal frameworks be established. Even though nepotism may be one reason for family internal succession it should become clear that the phenomenon has also efficiency- and strategy-related aspects which should be considered. More considerations of the contingency factors as well as the underlying success factors can therefore be suggested. A more case-based evaluation of the efficiency and effectiveness of an internal solution should be taken into account.

Obviously, understanding the reasoning for the preference of an internal successor also highlights factors that would rather suggest an external succession as beneficial. For family firms it may be very useful to better understand the strategy-related reasons for internal versus external successors in order to be able to select the better option. When the internal successor is the better option due to the relevant knowledge types for competitive advantage realisation, not only awareness for theses underlying factors have to be created but the transaction atmosphere in the family should also be of concern. Since conflicts in the family have direct influence on the atmosphere in the whole company (Klein, 2000, pp.87–92), it appears highly relevant to create rules that foster transparent and efficient succession processes and strive to keep the family strengths and specificities alive. This has been illustrated by the investigated case study.

We have looked at 12 successions for one family business, obviously further in-depth cases would be useful and we would suggest that further in-depth cases be undertaken on the basis of our conceptualisation. Other cases of family businesses from different industries would be a relevant complement to the study undertaken here. For future research, finding more examples for each square in the contingency model of family business succession could be useful. From the research conducted here, it became
obvious that especially the development of a firm from one square to another gives relevant insights into the suitability of an internal successor compared to an external one and underlying factors of the environment and the valuable firm internal resources. We see in-depth case studies as a fruitful avenue to come to a better understanding of valuable resources that differentiate family businesses from other firms especially with regard to their effective means of transferring them to the next generation when the management stays in the family.

In summary, it proved useful to combine the contingency model of family business succession with strategic management in terms of the drivers for competitive advantage. Understanding the roots of competitive advantage generation in different contexts and bringing it together with the specificities of the transaction atmosphere and the access to experiential knowledge special in family firms further complement the original model. Illustrating this in an in-depth case study provides rich data for further development of the model. Taking an old family business with a record of many successful successions as the object of analysis proved to be a useful strategy to gain more knowledge about competitive advantage generation in family firms.

References


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Appendix A  Interview with Hans August Dethleffsen (approx. two hours, 3rd of March 2010)

Topic: Relevant knowledge types in family businesses succession

Explaining the research questions and the family tree: Showing and asking specific questions about the genogram.

Questions:
1. What are the success factors of an effective internal succession and what context factors are important in your opinion?
2. Are these success and context factors particularly relevant in the industry of your activity?
3. How important are the following management capabilities for the competitiveness of your company? Please rate the importance on a scale from 1 (not important) to 5 (very important), and briefly explain your assessment.

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<th>Capability</th>
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<td>• Knowledge of customer needs</td>
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<td>• Formal relationships</td>
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<td>• Informal relationships</td>
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<td>b. Relationships with suppliers:</td>
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<td>• Knowledge of supplier needs</td>
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<td>• Formal relationships</td>
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<td>• Regional integration</td>
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<td>c. Relationships with employees:</td>
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<td>• Knowledge of employees needs</td>
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<td>• Informal relationships</td>
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<td>d. Relationships with competitors:</td>
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<td>• Knowledge about competition in the region</td>
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<td>• Linking to networks</td>
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<td>• Other activities</td>
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<td>e. Understanding of relationships between the above mentioned four stakeholders</td>
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not important | very important
1 2 3 4 5
B. Boyd and S. Royer

f. General corporate understanding:
   • Connections within the company
   • Business philosophy
   • Commitment to corporate values
   • Knowledge of the produce range/services

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<td>Understanding of undocumented processes in the company</td>
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g. Management skills

4 Importance of the family:

a. Were or are there regular meetings with family members who are involved in the company?
b. How important is loyalty to the family structure?
c. How important is the protection of financial interests of the business family?
d. When were the succession processes initiated in each case?
e. Did the successor have contact the company before that date and how?
f. Is there a tradition in business succession? Is or was there a routine for handing over to the successor such as documents or the like?
g. Were there other siblings in different generations and what influence or role did they have?

5 Were there any particular factors in the individual succession processes?

Further questions:

6 How important are the relationships with banks?
7 How important are the relationships with other family members?
8 What influence had / have the women of the owner of the company?
9 What happened to Theodor Gebler, the brother in law of Diederich II and co-founder of the limited partnership?
10 Is the branch manager Uwe Hardtmann financially involved in the company?
11 What were the reasons for selling of the company Herm. G. Dethleffsen to Berentzen?
12 Does Queisser Pharma still belong to the company?