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Family-owned manufacturing SMEs and innovativeness: A comparison between within-family successions and external takeovers

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ABSTRACT

The purpose of this article is to compare within-family successions and external-party takeovers in family-owned manufacturing SMEs to determine potential differences in how they are perceived and managed. This paper focuses on two long-term aspects of family businesses – their succession and their ability to innovate – defining innovativeness as an aspect of organisational culture. Based on ten case studies, the paper concludes that the values related to a firm's context, influenced by the divesting party as well as by the choice of successor, create inertia, to the extent that only minor changes in innovation orientation are possible. External owners may focus to a greater extent on growth and new ways of innovating, while family-succeeded firms diversify so as not to abandon previous businesses. Intermediating factors, such as customer involvement, type of SME, and the acquirers' motives, influence the innovative organisational culture and create explanatory links to innovation intensity and methodologies of innovation.

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1. Introduction

Many companies are run as family businesses (Melin & Nordqvist, 2007), and as such, the companies come to be affected by that context, which includes how the family influences the business and the small size of the company. Most family-owned businesses are small and medium-sized enterprises (SMEs) (i.e., the companies have less than 250 employees and a turnover of less than 50 million euro, or, as an alternative to the turnover criterion, the total assets carry a booked value below 43 million euro; European Commission, 2009) throughout their entire lifetime, which often extends across generations. These companies contribute significantly to the economies of many countries (Ljung, 2010). To remain in business, just like any other business, these companies need to update their product range, improve production processes, and occasionally diversify their businesses into new fields. Consequently, these companies need to remain innovative. At the same time, family-owned firms may be underpinned by values specific to them, and these values may affect their tendency to make important changes (Habbershon, Nordqvist, & Zellweger, 2010).

Recently, attention has been paid to the many family-owned firms that need to find new owners (Linder, 2005; Melin et al., 2004) when it is not certain that they will be sourced from within the family. Instead, options such as management buy-ins, buyouts and acquisitions by external parties that do not seek to take an active part in the execution work of the company may follow (Howorth, Westhead, & Wright, 2004). The succession choice may have a great impact on the long-term development of the company, wherein the type of succession may lead to changes in the values that underpin the company. Those values, in turn, include areas such as the innovativeness.

This paper defines innovativeness as an aspect of organisational culture (Hurley & Hult, 1998) and focuses on how innovativeness is handled in the succession of a family-owned SME. The paper specifically addresses whether and how innovativeness is affected by a family-succession or an external party takeover of a firm, with an empirical focus on manufacturing SMEs (SMMEs). The purpose of this article is to compare within-family successions and external party takeovers in family-owned manufacturing SMEs to determine potential differences in how they are perceived and managed. The article focuses, therefore, on two long-term aspects of family businesses: their succession and their ability to innovate (Lumpkin, Brigham, & Moss, 2010; Steier & Miller, 2010). Through a logical combination of research on succession in family firms and

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innovation management, the article develops propositions that are then tested using a sample of five within-family succeeded SMMEs and five family SMMEs that were taken over by external parties (Eisenhardt, 1991). The cases are then used to develop new ideas that the current literature has not yet sufficiently addressed (Siggelkow, 2007).

Much research into family business succession deals with the processes of the transaction and integration phases (Ragozzino & Reuer, 2007; Scholes, Wright, Westhead, Burrows, & Bruining, 2007), or it discusses the characteristics specific to family succession (family and business, legal, finance and tax issues, practical approaches to the succession, and other barriers) (Ip & Jacobs, 2006). Less is known about what happens following the succession, as well as the ways in which this phase differs if the company is taken over by an external party. In the related literature on innovations in acquisitions, scholars have generally focused on scenarios in which a large company takes over a small, innovative one (Ahuja & Katila, 2001; Lengnick-Hall, 1992) and in which the acquired party is usually seemingly newly established (Boeker & Karichalil, 2002; Christensen, 2006; Fillion, 1966). Overall, the literature on acquisitions involving small firms is limited, although it is a frequent practice (Hussinger, 2010).

The remainder of the article is structured as follows. The next section outlines the theoretical point of departure: succession and take-over of family-businesses, innovativeness as an aspect of organisational culture, and how innovativeness could be expected to be handled in the case of such successions. The following section covers methodology. The article is based on ten cases of successions in family-owned SMMEs, five of which were taken over by family members, while the rest were acquired by external parties. These successions are briefly described. In the findings section, the ten cases are analysed in terms of innovation type, innovation intensity, and change. Research propositions are discussed in relation to the cases. The article ends with conclusions, managerial implications, limitations and ideas for future research.

2. Literature review and propositions

2.1. Succession in SMEs and family-owned businesses

Most companies, if handled successfully, will change owners at one point or another. Ip and Jacobs (2006, pp. 326–327) define the process of handing over a company to new owners, otherwise known as business succession planning, as "the transfer of a business that results from the owner's wish to retire or to leave the business for some other reason. The succession can involve a transfer to members of the owner's family, employees, or external buyers." Their definition specifies that succession is not merely the description of how a business is transferred between family members, but it also includes actions such as acquisitions and takeovers (Hagedoorn & Duysters, 2002) as well as takeovers that can be described as management buy-ins and buyouts (Scholes et al., 2007).

Research on acquisitions usually focuses on large companies, while the literature on SME acquisitions remains limited (At & Morand, 2003; Davidson, 1998; Hussinger, 2010). Small firms are sometimes seen as targets being taken over by large companies, where the acquired party is often a newly established firm (Ahuja & Katila, 2001; Christensen, 2006; de Man & Duysters, 2005). Such deals are assured to reach growth potential, strengthening the SME's financial situation (Salvato, Lassini, & Wiklund, 2007), and customer acceptance (Boeker & Karichalil, 2002; Fillion, 1966; Öberg, Grundström, & Jönsson, 2011). Graves (1981) is one exception to these large-firm-acquires-small-firm studies. In his article, he studies various parties' attitudes towards the merger of two small companies, pointing to how the acquisition led to better market coverage and product mixes.

In the circumstance of within-family succession, research by Birley, Ng, and Godfrey (1999) points to various dimensions of such succession, such as situations in which children may be unwilling to takeover the firm, risks for mixtures between private family affairs and the business, and whether the succession should evolve over several years, or if the next generation takes over as the previous one retires. Davis and Harveston (1998) similarly research family influences on issues of succession, Trevinyo-Rodríguez and Bontis (2010) investigate how family affects the integration of companies in terms of knowledge transfer, and Handler (1990) concludes that entrepreneurs and successors need to adjust to each other to complete a successful succession. This all seems to suggest that the values (or the organisational culture) specific to family-owned firms affect the execution and succession of such businesses (cf. Bjursell, 2011).

In keeping with Howorth, Rose, Hamilton, and Westhead (2010) and Westhead and Howorth (2007), who state that it is an oversimplification to describe family-succeeded firms as one homogeneous group of companies, Rastogi and Agrawal (2010) find that children of business families can be divided into two groups: potential successors and potential entrepreneurs. Potential successors are those who join the family business due to family pressure, and these successors usually display low risk taking, as they do not want to jeopardise the family business. Potential entrepreneurs, on the other hand, have a wish to bring strategic change into action and are likely to adapt to changes to ensure sustainable growth.

Ip and Jacobs (2006) summarise the topics and perspectives most commonly held in research on succession, which include the following: family and business, legal, finance and tax issues, practical approaches to the succession, and other barriers. Consequently, the transaction phase and integration issues dominate the literature (Melin et al., 2007), while less is known about post-succession consequences (Steier & Miller, 2010). In the instances where the outcome is considered (e.g., Zajac, 1990), it is measured mostly in terms of stock market prices or revenue, while specific items such as innovativeness have, to the authors' knowledge, not been researched.

Similarly, the literature on successions to external parties (which remains a limited area of research) tends to focus on the transaction phase, where issues such as information asymmetry and pricing are considered (Howorth et al., 2004; Ragozzino & Reuer, 2007; Scholes et al., 2007). Howorth et al. (2004) address the ways in which management buy-ins and buyouts may facilitate better knowledge transfer if they are planned for by the divesting party, and they also anticipate that these types of external takeovers are less problematic than takeovers by parties that are not familiar with the company. Fiegener (2010) describes how companies behave differently depending on the extent of involvement by a MD's relatives who work as employees, key managers, advisors, and board members. This suggests that there are distinct values that may follow with the family-owned firm as long as the firm remains in the family or is succeeded to in-house managers. However, these values may well be changed if the company is taken over by an external party (cf. Abdellatif, Amann, & Jaussaud, 2010; Dana & Smyrnios, 2010; Webb, Ketchen, & Ireland, 2010 on the differences between family and non-family firms).

While the literature gives relatively few guidelines on the external takeovers of family-owned firms, the previous research seems to suggest that organisational values may change to a greater extent if an external party takes over a firm. Such a change of leadership could create a scenario in which the new owner has more distance from the company than a family member (whether he or she had previous experience with the company; cf. Howorth et al., 2004). It could also

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