

Memory (Gedächtnis)
(Influence of FF's image on) Ownership transition
in family firms

Which associations do we have in our memory when thinking about some specific family firm? How do these first associations that we have in our mind when we think about some instinctive association or about our own experience about some family firm (family firms image) influence ownership transition processes in FF, if the FF will choose to transit ownership within the family or the external members of the company? In order to come closer to this phenomenon, I decided to make a deepen analysis of an empirical study, published in a journal *Entrepreneurship Theory and Practice*, which has already done some theoretical and practical research in this field in order to see what is the actual state of the literature and which steps could be taken in the future. The research has investigated factors that influence family business owners' choice between passing ownership within the family or to new external owners. Taking an embeddedness perspective focusing on owner-family structure and involvement it has been hypothesized that ownership dispersion, number of potential heirs, multigenerational involvement, and whether the CEO is a family member influence the choice of an internal or external transition of ownership. Key findings of this research are extending of the understanding of the drivers and consequences of ownership transitions in family firms. The study shows how owner-family structure and involvement impact whether firms in an entire population, not just a sample, undergo internal or external ownership transition. The influencing factors of Embeddedness perspective and the notion of structural cohesion - Family ownership dispersion, Number and age of potential heirs, Intergenerational ownership involvement, Family or Non-family CEO will be explained in more detail as main concepts for this study. Family ownership dispersion - As the owner-family grows, ownership becomes dispersed among individuals. While increased family ownership has positive implications (larger pool of competencies, more diversity in viewpoints, greater access to human and financial capital), but it brings also weaker cohesion, lack of togetherness and solidarity among family members. As the owners group is smaller the connections among members are more direct, network density is higher, ties are stronger as well as the cohesion among the owner-family. Greater ownership dispersion can decrease the probability of internal ownership transition through the number of different mechanisms related to embeddedness and structural cohesion (inability to agree upon who would be a suitable heir, conflicts between incumbents and potential successors, lack of trust and confidence in the potential successor, lack of trust and confidence in the potential successor, and lack of commitment of family members to the potential successor. Nevertheless, the number and age of potential heirs explains that a larger set of potential heirs leads to a larger and more complex family structure, social ties are weaker and compensation for those who do not take over ownership of the FF becomes more complex. Regarding the age- the younger heirs mostly do not have independent career plans or opinions about firm development, they have stronger ties with parents and support their views, have less conflicting opinions. The existence of the young potential heirs creates incentives for a longer-term orientation concerning the family involvement in the firm, more likely that family retains the ownership. Adult family members are more likely to have formed career plans (inside or outside the FB) and have a wider network beyond the family and independent

opinions regarding firm development. As the larger number of adult potential heirs, it will be more difficult to select the new owners within the family. When there is a larger number of adult potential heirs, the embeddedness and sharing of family values is less strong. It is challenging to implement the formal family governance practices (shared goals and visions). Weaker embeddedness results less expectations of keeping the FF in the family and adult heirs may prefer other paths than taking over the FF. The involvement of at least 2 generations in the business is necessary requirement for a successful within-family transfer. The involvement of the next generation implies that there is both an increased interest in learning the business and a willingness of potential successor to take over the company – part of preparing for ownership transfer. An ownership transition is a process – the coexistence of multiple generations enables the older generation to build stronger ties and involve the younger generation in creating the long-term goals of FB and to transfer their knowledge to younger generations and FB culture and identity. This creates stability, strong social relationships and cohesion among the owner-family. Working together enables both generations shared vision, connectedness and solidarity among the family members which is especially important for older generations to feel confident to hand over the business to the younger generation. Collaborating develops a better understanding of each other and respect each other views and expectations, increases cohesion, strengthen relationships and increase of the embeddedness of the firm within the family. Whether the FF is operated by a CEO from the owner-family or an external CEO influences the choice between external and internal ownership transition. Internal family CEO- shows strong interest and commitment to develop the firm among family members and a wish to operate FB in line with family values, experiences and traditions. Large to very large and publicly listed companies may retain long-term ownership, but appoint an external CEO, while SME do not. Having a family member as CEO shows that a leader is embedded in the family, symbolizes stability and durability as the CEO from the family can better protect the family interests. External CEO – there are possible conflicts about which strategic direction should the firm take, potentially weak stability and solidarity in a firm. Decision about an external CEO may confront following challenges 1) family may not agree which family member should be appointed as a CEO, 2) little interest and willingness of the next generation family members to take over the business and handle stress regarding expectations of family stakeholders, 3) as a solution for bad social relations between family members, 4) no interest for continuing the business from the family side. Following hypotheses have been developed in this research

H.1. The probability of internal ownership transition decreases (compared to the probability of external ownership transition) with increased ownership dispersion.

H.2.a. The larger the number of young children that can become potential heirs, the higher the probability of internal ownership transition (compared to the probability of external ownership transitions).

H.2b. The larger the number of potential adult heirs, the smaller the probability of an internal ownership transition (compared to the probability of external ownership transitions).

H.3. The probability of internal ownership transition increases (compared to the probability of external ownership transition) when multiple generations are involved in the business.

H4. The probability of internal ownership transition decreases (compared to the probability of external ownership transition) with the appointment of an external CEO.

A longitudinal dataset by combining 5 longitudinal databases maintained by Statistics Sweden has been used as a research method. RAMS and CFAR databases which provide yearly data on all firms registered in Sweden (sales turnover, profitability, debt) as well as LISA and Jobbresistret (work register) which provide yearly data on all Swedish inhabitants, family relationships, income sources were the research tools used in combination with Multigenerational database which provides information on couples and biologically linked families. Sampling frame were: all privately held firms with 10 employees or more in Sweden, from 2004-2008 (smaller firms excluded). Among these firms, all firms that were owned by 2 or more family members were included. Time period was: 4 years, 2004-2008. As a result it has been proved that during the 4 years ownership transition period, approximately 56,4% of all firms belonged to the continuation category, 23,5% of all firms experienced a transfer within the family, 17,4% of the firms had transitions to outsiders and 2,7% of all firms belonged in the shutdown category. Future research should take into account the shift in mindset among business families seeing themselves less as owner-operators and more as owner-investors. This shift could lead that members of owner-families stay as active owners, but not managers.