

*Learning of Successors in Long-Lived Family Firms:
Knowledge Construction for Entrepreneurial Mindsets*

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Abstract

This study explores how successors in long-lived family firms learn entrepreneurial mindsets that orient the reconfiguration of unique resources of family firms. Learning to shape business values and beliefs is important for successors because values and beliefs are the firms' core related to organizational identity and culture. Entrepreneurial mindsets are values and beliefs that pursue opportunities. Our previous research about long-lived family firms showed that entrepreneurial mindsets are one of the elements learned from transgenerational family knowledge and that successors have complex learning of explicit and tacit knowledge. This research to deepen entrepreneurial mindsets is a case study of semi-structured interviews with family managers of 15 family firms — nine firms of several sectors in Hokuriku district and six traditional food sector firms — over 100 years since their establishment in Japan. The results show three types of learning for entrepreneurial mindsets.

- Learning entrepreneurial mindsets from transgenerational family knowledge.
- Recognizing the constrictive resource value of the family business and forming entrepreneurial mindsets from self-learning or external experience forward retrieve of the family business.
- Recognizing VRIN (Valuable, Rare, In-imitable, and Non-substitutable) resources of the family business and learning conservative mindsets to maintain current resources.

The transgenerational transfer of family values is a key factor in the persistence of a family business. In addition, forming an entrepreneurial mindset of the successor derived from concern for the decline of the family business provides resilience to the longevity of a family business.

Keywords: Family Business, Successor, Familiness, House Percepts, Entrepreneurial Mindsets

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Introduction

Most small and medium-sized enterprises (SMEs) in Japan are family businesses, and their business succession is recognized as a social issue due to the aging of family business managers. A large number of long-lived firms characterizes family business in Japan. Long-lived family firms that have been in business for more than 100 years have a high rate of family succession, and a low rate of not having a predetermined successor (Teikoku-Databank, 2022). The data suggest that family succession in long-lived family firms is more stable and that their longevity is not merely a consequence.

Cabrera-Suárez et al. (2001) emphasized the importance of transferring tacit knowledge to the process of family business succession. Tacit knowledge is personal, contains subjective insights, and is rooted in individual actions and experiences, together with the ideals, values, and feelings that individuals hold (Nonaka & Takeuchi, 1995). Transfer of tacit knowledge is not as easy as that of explicit knowledge. In Japan, there is a history of transgenerational transfer of values and beliefs for family business as house precepts (Adachi, 1970). The practice partly remains. Though traditional house precepts are written or oral, Taomoto (2012) identified tacit house precepts in family businesses. In this study, house precepts refer to transgenerational values and beliefs in a family business learned explicitly and tacitly by successors.

The resources unique to a family firm provide it with advantages, so it's necessary to manage the resources' value (Habbershon & Williams, 1999). Chujo et al. (2021) identified values for innovation in house precepts across generations in long-lived family firms. In this study, values for innovation are substituted by entrepreneurial mindsets, which refer to values and beliefs that orient a person to entrepreneurship (Habbershon et al., 2010). This study explores how successors in long-lived family firms learn entrepreneurial mindsets and enhance unique resources of family firms through successors' activities.

Literature Review

Knowledge Construction of Successors

Le Breton-Miller et al. (2004) posit that the transmission of knowledge during succession in family businesses begins cleverly and imperceptibly in the home. Based on a case study of a family business in Europe, Lambrecht (2005) found succession to the next generation to be a time-consuming and ongoing process. Martínez et al. (2016) argue for knowledge acquisition from outside sources and the transgenerational knowledge transfer inside a family. Woodfield and Husted (2017) assumed that the knowledge held differs between generations of a family, and that there is bi-directional knowledge sharing between predecessor and successor. Cabrera-Suárez et al. (2018) found that not only transgenerational knowledge transfer, but also family members, employees of the family, external stakeholders, work experience outside the family business, and education received outside the firm, affect the knowledge construction of the successor, which in turn affects their entrepreneurship.

Familiness

In the approach to study the advantages of family firms, Habbershon and Williams (1999) focused on Valuable, Rare, Inimitable, Non-substitutable (VRIN) resources unique to historical family firms from Resource Based View (RBV) concept of Barney (1991),

Familiness refers to the unique bundle of resources derived from the interaction between the family and the family business, and has both, positive and negative aspects, and is classified into either "distinctive familiness," when it possesses resources that produce advantage, or "constrictive familiness," when it does not (Habbershon & Williams, 1999). Familiness contains shared values/vision of a family (Pearson et al., 2008), a family brand with long history Zellweger et al. (2010), management philosophy and corporate culture (Zellweger et al., 2010), and relationship with stakeholders (Habbershon & Williams, 1999). From the identity dimension of familiness, a successor has overlapping family, organizational, and individual identities, and the overlapping influences the forming of the successor's values (Zellweger et al., 2010). Making distinctive familiness sustainable needs appropriate resource management (Habbershon & Williams, 1999). It is important for the longevity of family firms how the entrepreneurship of successors manages the unique resources of a family business.

Knowledge and Intellectual Capital

Marr et al. (2004) present two streams of research on knowledge in business management. One views knowledge as an entity related to an interpretation of information sets and experience (Albino et al., 2001). Nonaka and Takeuchi (1995) argue that knowledge is related to beliefs in a particular position and to purposeful action. The argument shows that house precepts are knowledge because they are values and beliefs for the family business. The other stream views "knowledge assets as a major part of an organization's value" (Marr et al., 2004, p. 553). The concept of intellectual capital can be presented from this perspective. Intellectual capital refers to knowledge, information, intellectual property, and experience that can be utilized to create wealth (Stewart, 1997). Intellectual capital comprises structural, human, and relational capital. Structural capital includes intellectual property, business processes (including explicit and implicit procedures and rules), corporate philosophy, and corporate culture; while human capital includes skills, know-how, and abilities; and relational capital includes customers, customer loyalty, sales channels, and brands (Guthrie & Petty, 2000). Intellectual capital mostly fulfills VRIN criteria (Teece, 2014), so the perspective is suitable for familiness research.

Research Model and Research Questions

Our research model is as follows:

The entrepreneurship of successors in long-lived family firms relates to learning the entrepreneurial mindsets from the house precepts (Chujo et al., 2021). The knowledge construction in the process of successor learning involves not only family members, but also employees of the family firm, external stakeholders, and work experience and education received outside the family firm in question (Cabrera-Suárez et al., 2018).

The knowledge construction of a successor shapes his/her own values and beliefs, and entrepreneurial activity based on them integrates resources toward distinctive familiness.

The reason is that sustaining distinctive familiness requires proper resource management (Habbershon & Williams, 1999).

The research model conducts the following research question:

- How do successors in long-lived family firms learn entrepreneurial mindsets and integrate familiness as unique resources of family firms?

Methodology

This study adopts an inductive approach, using qualitative case studies. Case studies examine a phenomenon in context, where the boundaries with the context are unclear (Yin, 2018). This study explores learning by the successors of long-lived family firms, with family businesses as the context. Defining a research question provides clues (Yin, 2018), and focus (Eisenhardt, 1989), for the research. We have already defined the research question of this study above.

The unit of analysis for the cases in this paper is the successor. We distinguish successors from predecessors, considering their pre- and post-succession situation as successors. This study examines multiple case studies, which are more robust and offer greater explanatory power than single ones (Herriott & Firestone, 1983; Yin, 2018). Qualitative studies use theoretical sampling. Theory sampling selects cases likely to replicate the emergent theory (Eisenhardt, 1989). Sampling was conducted according to the purpose of this study and the research question. Long-lived family firms refer to having a history of over 100 years from its establishment, managed by family members, at least partially owned by a family, and succeeded by a family member. Firms are to be small and medium-sized enterprises. Interviewees are management members of the family businesses, who are party to the succession process. From the successor's corporate website, the company history, house precepts, as well as values and principles manifest, in part, in the management philosophy and corporate brand. By selecting firms for which information is, at least, partially available, it becomes possible to check for consistency with the interview data.

This study assigned two survey groups to find the difference between the same sector and different sectors. Survey 1 considers a wide range of sectors in Hokuriku region. Survey 2 examines the traditional Japanese food industry in a wide area of Japan (see Table 1).

	Area	Firm	Sector	Outline
Survey1	Hokuriku	A	services	hotel and restaurant
		B	industry	Japanese sake
		C	retailing	foods
		D	industry	printing
		E	industry	construction
		F	industry	Japanese sake
		G	industry	material
		H	industry	fermented foods
		J	retailing	Japanese lacquer ware
Survey2	Don't care	P	industry	fish processing
		Q	industry	vinegar
		R	industry	fermented foods
		S	industry	vinegar
		T	industry	fish processing
		U	industry	Japanese sake

Table 1: Overview of Interviewed Firms

Following the interview guide created by the research model, semi-structured interviews with successors collected data from 15 family firms. Semi-structured interviews feature more general questions and offer greater freedom in the order and content of questions than structured interviews do (Bryman, 2016). The interviews accorded priority to situations in which the interviewee was comfortable talking. Interviews were conducted either in person or via videoconferencing. There were no differences in the content due to the interview method.

Interviews were recorded and transcribed. Transcribed text was coded using Verbi's MAXQDA data analysis software, in order to perform in-case analysis, from which code relationships were identified. In-case analysis widely covered historical value, house precepts, succession process, and business activity of a successor to identify hidden factors related to entrepreneurial mindsets. A cross-case analysis identified concepts in Table 2.

concept	definition
Learning entrepreneurial mindsets	Learning entrepreneurial mindsets from house precepts and family business history orients a successor to entrepreneurship in a family business.
Learning conservative mindsets	Learning conservative mindsets from house precepts and family business history orients a successor to maintaining VRIN resources of a family business.
Recognizing constrictive familiness	A successor recognizes constrictive familiness that means decline of valuable resources in a family business.
classification of integrating resources	Sirmon et al. (2007)
Stabilizing	Making minor incremental improvements
Enriching	Adding a complementary resource from the resource portfolio to the current bundle
Pioneering	Integrating completely new resources

Table 2: Focused concepts in cross-case analysis

Results

Overview of Results

Table 3 presents the results of the cross-case analysis regarding entrepreneurial mindsets, recognizing constrictive familiness, and integrating resources. Integrating resources indicates strength and content manipulated in human, structural, and relational capital.

Learning entrepreneurial mindsets and recognizing constrictive familiness are not mutually exclusive concepts, and their coexistence is possible. However, this study did not find the combination. The conceivable situation is that, despite some entrepreneurial activities or resource integration efforts, the value of familiness has declined. In this scenario, it might be more difficult to recognize opportunities for new resource integration, or greater risk-taking might be required.

They are classified into the following three categories by sorting based on learning entrepreneurial mindsets and recognizing constrictive familiness:

Type1: Firm A, B, D, F, G, H, P, Q, R, S

Type2: Firm C, E, J, T

Type3: Firm U

	Firm	Learning entrepreneurial mindsets	Learning conservative mindsets	Recognizing Constrictive familiness	Bundling Resources			
					strength	human capital	structural capital	relational capital
Type1	A	○			Enriching			○
	B	○			Enriching		○	○
	D	○			Enriching		○	○
	F	○			Enriching		○	○
	G	○			Pioneering	○	○	○
	H	○			Enriching		○	○
	P	○			Enriching			○
	Q	○			Enriching		○	○
	R	○			Enriching		○	○
	S	○			Enriching		○	○
Type2	C			○	Pioneering	○	○	○
	E			○	Enriching		○	○
	J			○	Enriching		○	○
	T			○	Enriching			○
Type3	U		○		Stabilizing			

Table 3: The results of the cross-case analysis

Result of Type 1

Successors learn entrepreneurial mindsets in various ways from house precepts. Explicit house precepts show values and beliefs simply, so successors understand the essential meanings during their management.

One of our house precepts is “Tradition is a continuation of innovation.” ...For the first time, I thought the house precept was overstated...I understood the meaning through my management of the family business. (Firm F)

The history and legacy of family business give tacit house precepts to successors.

The founder was a trader...The second generation president became a manufacturer of soy sauce brewers... My father was the third generation, and he expanded into soybean paste brewing. (Firm H)

I found a cool storage place in an old warehouse. My grandfather must have constructed it for improving products... I believe that I inherited his values. (Firm B)

The successor undertakes enriching or pioneering for integrating resources, so revises familiness to adapt to environmental change. Figure 1 shows the model of Type 1.

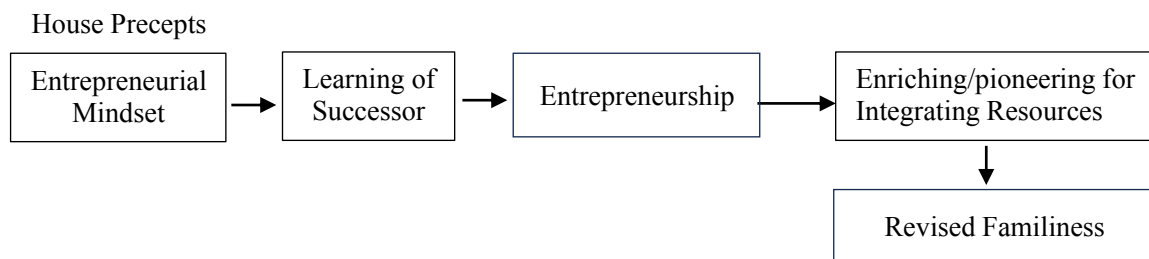


Figure 1: The model of Type 1

Result of Type 2

In this type, the entrepreneurial mindsets of house precepts do not appear.

The successor recognizes constrictive familiness. Inadequate management of familiness, or environmental changes may render familiness constrictive.

At that time, the plastering business was in decline; I felt succession would give me a tough job. (Firm E)

Lacquer shop was not hopeful for the future, so my father never told me to continue the business. (Firm J)

While working for a family firm, I realized the limits of the business. (Firm C)

The successor thus forms entrepreneurial mindsets his/herself and adopts enriching or pioneering for integrating resources.

I thought about establishing a lacquerware shop, and then joined a famous lacquerware shop for training. (Firm J)

I thought of transformation from delivering to having customers come to buy... I learned my new business through self-study, excluding participation in seminars and advice from the businesspeople concerned. (Firm C)

A successor's commitment to contribute to the family business as an extension of the family derived from the overlap between the family and organizational identity may orient him/her to entrepreneurship (Zellweger et al., 2010). Figure 2 shows the model of Type 2.

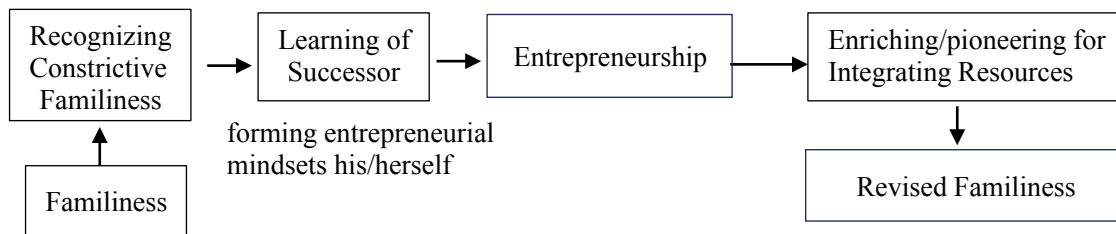


Figure 2: The model of Type 2

Result of Type 3

Company U's products have historically been highly popular and have maintained their methods and taste. Its process differs from the commonly employed methods today; it is the only company that maintains both, traditional processes and taste, and has high VRIN resources. The successor takes over historical values and maintains familiness, with minor alterations. Figure 3 shows the model of Type 3.

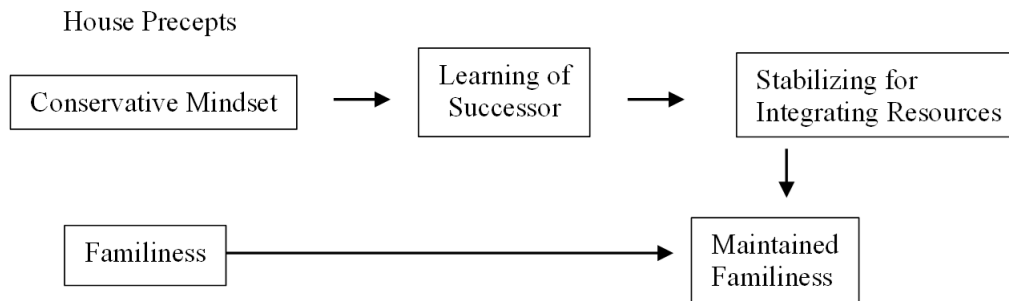


Figure 3: The model of Type 3

Discussion

Successors to family businesses often begin to learn about the family business from an early age because they can communicate with a predecessor in the family house daily. This environment inspires natural learning about the family business and supports absorbing entrepreneurial mindsets.

Such an environment for successors facilitates the learning of the values of the entrepreneurial mindsets in Type 1. Type 1 offers the highest family business sustainability of the three types, because the entrepreneurial mindsets are transferred across generations and the entrepreneurship derived from the mindsets integrates resources to adapt to environmental change. Enriching of integrating resources retains the company's core values and expands into the periphery with fewer risks. Transgenerational pioneering is most likely limited

because pioneering is more aggressive than enriching and entails more risks (Asaba & Yamanoi, 2022).

Type 2 shows that the successor recognizes the constrictive familiness and forms entrepreneurial mindsets of their own. Constrictive familiness means constrictive resource value because of inadequate adaptation to environmental change. The reason for forming entrepreneurial mindsets is most likely the successor's attempt to contribute to the family business as an extension of the family (Zellweger et al., 2010). Previous research on family firms in Japan shows that the combination of tradition and innovation, referred to as "Enrichment" in Type 1, is one of the factors in their longevity (Asaba & Yamanoi, 2022; Yamada, 2013). This research also identified that forming entrepreneurial mindsets from recognizing the constrictive resource value is valid to retrieve unique resources of a family business. Type 2 demonstrates the resilience of family businesses in recovering from a state of decline.

Type 3 has the characteristics that the family business contains sustainable VRIN resources, and that a successor learns conservative mindsets of house precepts. The sustainability of Type 3 depends on the sustainability of the value of the VRIN resources. The sustainability of Type 3 may be uncertain. A part of Japanese traditional culture has most likely the persistence on business of Type 3.

Conclusion

This study explored the construction of knowledge regarding the entrepreneurial mindsets of family business successors in a dynamic environment. We found the following three types of successor entrepreneurial mindsets in long-lived family firms:

- Learning entrepreneurial mindsets from transgenerational family knowledge.
 - It provides transgenerational entrepreneurship to adapt to environmental change, so a family business is stable for persistence.
- Recognizing the constrictive resource value of the family business and forming entrepreneurial mindsets from self-learning or external experience forward retrieve of the family business.
 - The learning of a successor different from the above gives resilience to the longevity of the family business.
- Recognizing VRIN (Valuable, Rare, In-imitable, and Non-substitutable) resources of the family business and learning conservative mindsets to maintain current resources.
 - The values and beliefs of a family are to inherit Japanese traditional culture.

The transgenerational transfer of family values is a key factor in the persistence of a family business. In addition, forming an entrepreneurial mindset of the successor derived from concern for the decline of the family business provides resilience to the longevity of a family business.

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