DOES BUSINESS SUCCESSION ENHANCE FIRMS' INNOVATION CAPACITY? RESULTS FROM AN EXPLORATORY ANALYSIS IN ITALIAN SMES

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Does business succession enhance firms' innovation capacity? Results from an exploratory analysis in Italian SMEs.

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Does business succession enhance firms' innovation capacity? Results from an exploratory analysis in Italian SME Family Businesses[*].

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Abstract: Our main objective with this paper is to explore business transfer as *as potential source of innovation in Small and Medium-sized Enterprises (SMEs). The literature on the subject has mainly focused to business succession as process through which ownership and control is transferred between generation of entrepreneurs. In this paper we argue that nowadays the aim of business succession should not only replace existing entrepreneurial resources, but enhancing firms' innovation capacity. Our contribution moves into two major directions. The first explores the relationhip between business succession and innovation from a theoretical point of view. The second deepens such an understanding by assessing it on a sample of micro and small enterprises located in Emilia Romagna. We show that business transfer/succession in SMEs is not perceived as potential source of innovation. Business transfer still takes place mainly within the family. SMEs show little propensity to saparte ownership form management as way to enhance firms' likelihood to survive to business transmission. Senior entrepreneurs' show little propensity to invest on juniors' training. As result juniors lack of an autonomous business vision and do not perceive themselves as the main driver of innovation. Such a perspective is even supported by seniors, who do not expect business succession to make any difference on the way business is currently managed.*

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Introduction

Intergenerational business transfer is often a critical event in the life time of a firm. This is particularly true if the firm is family owned and of small and medium dimension (Fox, Nilakant, & Hamilton, 1996; Handler, 1994; Kets de Vries, 1993; Lansberg, 1988; Morris, Williams, & Nel, 1996; Ward, 1987). Business transfer/succession is going to take place in 30% of the European firms within 10 years. This process could affect up to 690.000 small and medium enterprise and 2.8 million jobs every year (European Commision, 2006, p. 3). The European Commission estimated in 1996 that 30% of these enterprises will disappear because of inadequate business succession management (European Commision, 1996, p. 183). Recent data shows that in Italy the number of firms that survive to first generation is one third. This number goes down to 15% from the second generation on. The percentage of firms that are about to face business succession is 40% with approximately 66.000 employees per year that run the risk to loose their job. This event is even more critical for SMEs (Perricone, Earle, & Taplin, 2001) because of, on the one hand, the lack of separation between ownership and control (Pilotti, 1992) and, on the other hand, senior entrepreneur's strategic role envisioning firms' future (Handler & Kram, 1988).

The issue of business succession in SMEs is not new to the literature. However, the major focus has been on business transfer per se. Scholars' major objective has been to understand which practices enhance firms' capacity to survive to this event, but little attention has been devoted to the specific factors that enhance firms' capacity to survive and how those interact with this process itself. What we are claiming, in other words, is that the process of business process cannot be de-contextualized. It should take into account the nature of the competitive context where this process takes place. It is this the reason why we decide to focus on the relation between business transfer and innovation. Innovation, in fact, is a core competitive activity in a knowledge-based and global economy. Being able to produce at comparative lower costs is not anymore sufficient. Therefore, SMEs are ever more required enhancing their capacity to absorb, create and transfer knowledge in transnational networks. Does business succession contribute to improve this capacity? Are juniors' educated and trained to play an entrepreneurial within the firm and lead innovation?

In order to provide an answer to these questions we follow a methodology structured into two parts. In the first part we conduct a literature review. We focus mainly on two field of studies. The first is the one of business succession. We distinguish between two sources of literature. The first is the traditional one, which focuses on issues such as juniors' selection and training and junior-senior relationship. The second is the emerging one, which looks at business succession as process of knowledge transfer. This second group of contributions, as we shall see, put emphasis on the intergeneration transferability of tacit

resources, such as social capital, that are strategic for maintaining and enhancing firms' innovation capacity. The second body of literature that we consider is the one on entrepreneurship. In the first Schumpeter, the one of theory of economic development, the entrepreneur is seen mainly as an innovator. The one who has the capacity to catalyze innovative resources around a common project and lead them to the production of market value. In the last century the original meaning attributed to the concept of entrepreneur went lost. Nowadays the concepts of entrepreneur and owner are often used interchangeably. It is only recently that scholars are reconsidering the added value of the entrepreneur as distinct form the one of the owner. Therefore, our interest toward this literature is justified by the thesis that the aim of business succession is not only to transfer innovation capacity, but also entrepreneurship.

In the second part we developed an exploratory survey finalized to assess innovation potential in business succession in small and medium and family owned enterprises. The term *family business* has assumed a wide range of meanings (Chrisman, Chua, & Sharma, 2005; Handler, 1989; Reginald A. Litz, 1995). For the sampling purpose we define a family business as "a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families" (Chua, Chrisman, & Sharma, 1999, p. 25). For the term *family business succession* we follow Beckhard and Burke (1983) in defining it as "the passing of the leadership baton from the founder-owner to a successor who will either be a family member or a non-family member" (Beckhard & Burke, 1983, p. 3 in Handler, 1994). *Innovation* is defined as "a firm's tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services, or technological processes. Although innovations can vary in their degree of radicalness, innovativeness represents a basic willingness to depart from existing technologies or practices and venture beyond the current state of the art" (Lumpkin & Dess, 1996, p. 142). The paper also refers to *senior* as the owner-founder or the incumbent entrepreneur and *junior* as the successor or new-entrant.

The exploratory analysis has been based on a self-constructed questionnaire. This has been structured into two parts. The first contains very general and self-explanatory questions on firms' demography and entrepreneurs' background. The second part, instead, contained specific questions both on the way business transfer has been managed and juniors' contribution to innovation. These data were collected through direct interview to make it easier for the respondent and to have the opportunity to probe or ask follow-up questions. The data analysis followed procedures commonly accepted in quantitative analysis.

Our contribution is based on a resource based view[2] (knowledge-based view) of the firm and creative entrepreneurs view (Simmie, 2005, pp. 790-791). It is directed toward understanding the ways of transferring tacit resources (social capital, networks, innovative capacity and creativity) as well as exploring the extent of the importance of their transfer for firms' innovation capacity.

Indeed the focus of this paper will be to explore the interaction between family business succession and innovation. In order to make a picture on literature we consider some main contributions on family business and innovation. From the literature review we derive a set of guidelines for our exploratory analysis. Furthermore we claim that the role of entrepreneur has been largely ignored by these strands of literature. The exploratory analysis will be useful to shed light on the links between business transfer and innovation capacity as well on the role of incumbent and successor entrepreneur in this potential innovative process. The empirical findings reveal some important dysfunctional patterns in business transfer and permit us to point out to the factors that cause it. We conclude by noting the need a new approach to management of family business succession based on education, knowledge and ethic. Finally, we offer some policies at regional level to foster and enhance the innovation capacity of family business succession's process.

Family business succession: a review of the literature

We argue that the issue of business succession, even if has received large attention in the literature, has been mainly interpreted has a problem of transferring control over existing resources. However, firms, in order to be competitive, are required to invest on enhancing their capacity to create knowledge. This implies investing on the adoption of formal and computerized languages to access and transfer codified knowledge components. Furthermore, it also requires, especially in the case of small and medium enterprises, investing on the quality of local contexts in order to improve their capacity to attract global competitive resources and translate them into local value, which is appropriable by local and small and medium firms. The way business succession impact on these issues has received almost no attention. It is only recently, as we shall see, in the second part of this literature review that business succession starts to be conceptualized as a problem of knowledge transfer.

Brockhaus (2004) has recently proposed a comprehensive review of the literature on business succession in an attempt to provide foundations to future research on the subject. He organize contributions in five categories. The first two categories comprise contribution that are general in their scope and belong to two distinct

[2] In recent literature the Resource-Based View has been applied within the family business research. For instance, see: Davis and Harveston (1998), Habberson and Williams (1999), Cabrera-Suarez, Saa-Perez and Garcia-Almeida (2001), Steier (2001) and for a review of RBV of the family firm see: Chrisman, Chua and Sharma (2005).

fields of studies. These are respectively business strategy and family business. In business strategy the topic of succession is not central. This issue is recognized as relevant for family firms' sustainable development and the adoption of a real governance structure is suggested as viable solution to minimize the impact of such a problem. On the contrary, in the field of family business succession is strategic[3]. For instance, Ward (1987) defines a family firm as a business that passes from generation to generation. In this field the relationship between a family and a business is perceived as source of firms' differentiation and competitive advantage[4]. However, succession is often recognizes as critical for firms' survival. Therefore, in this field the management of succession is often perceived as part of firm's strategic planning. Furthermore, this field has also highlighted legal and financial issues related to taxation as relevant to determine succession strategy and outcome. Finally, it has pointed out leverage buyouts, employee stock ownership plans and other alternatives for cashing out from family business as positive for the sustainable development of the firm.

In the remaining three categories specific topics are addressed. These topics are respectively successors' selection criteria, successors' training and relationship between owner-founder and successor.

With respect to selection criteria the literature highlights a general tendency toward the definition of more objective process of selection. Cultural stereotypes - such as age, sex and birth order – are gradually losing their role. Successors are ever more selected on the basis of their experiences and skills, and commitment to the enterprise. The persistence in choosing the eldest is often justified by the incongruence between his/her position in the family and his/her position in the firm. In this literature it is also pointed out family's trust as decisive to stimulate stakeholders to recognize successor's role in the firm.

The second issue regards successor's training. The scope is to define successors' optimal path of experiences. Scholars agree that the process of intra-family transfer is a long one. It starts in the childhood and it is characterized by two critical points. The first is when the successor enters the business on a full-time basis. The second is when successor inherits the leadership. Furthermore, scholars strongly recommend a long-term managerial experience outside the family business. This enable successor to collect experience in a diverse environment and to develop her identity and managerial style. The development of a managerial carrier in the family enterprise and in different position that requires interacting with different stakeholders is considered compulsory. Finally, recent contributions point out the relevance of being trained as entrepreneur at academic level as relevant for the intergeneration succession success.

[3] See Sharma (2004) for a recent and comprehensive review on the general topic.
[4] See the concept of familiness in Habberson and Williams (1999) and Cabrera-Suarez, Saa-Perez and Garcia-Almeida (2001).

The last issue often debated in the literature is the relationship between owner-founder and successor. The nature of this relationship is commonly considered strategic for the issue of the family business succession. Its character is relevant to determine the process, the timing and effectiveness of succession. Churchill and Hatten (1987), from this perspective, have characterized the dynamic of this relationship along the process of succession distinguishing between four stages: owner management; training and development, partnership and power transfer. It is expected that the two roles should mutually adjust their behavior along the process and compatibly with its state of development. It has been also shown that not only the relationship per se is relevant, but also roles' mutual perception. Furthermore, several contributions show that the choice of "stepping out of power" is not an easy one. There are many reasons, such as the fear for the future of the firm itself, for his or her own self-respect and identity, for the potential loss of respect both in the family and in the community, and the lack of trust in the successors' skills. A number of solutions have been proposed to overcome senior's resistance to the change of leadership such as helping her to become self-aware of her behavior or encourage her to leverage on her experience to start a new venture. Finally, a number of metrics and dimensions have been proposed to characterize this relationship.

Sharma's (2004) review of the literature adds some interesting insights to this general picture. We emphasize two aspects. The first is the work of Miller, Steier and Le Breton-Miller (2003) on business succession failure in family business. Their major argument is that succession failure in family business can be often traced back to the misalignment between an organizational past and future. From this perspective, they recognize three patterns of failures: conservative (attachment to the past), rebellious (wholesale rejection of the past) and wavering (incongruous blending of the past and present). Furthermore, Sharma points to a number of recent contributions that are relevant to the study of business succession and innovation and point out the transferability of tacit knowledge as strategic for the family firm's sustainable development after succession. We focus on three contributions that are relevant to this paper's focus.

The first is the one by Cabrera-Suarez, Saa-Perez, & Garcia-Almeida (2001). Their major contribution is to conceptualize business succession as a process of knowledge transfer between an incumbent and a new entrant. Adopting this perspective enables authors to integrate the traditional distinction between tacit and codified sources of knowledge[5] into the process of intra-family business transfer. The transfer of tacit knowledge requires setting up specific organizational solutions to facilitate the socialization and internalization of a "common sense and understanding of the business context". *Familiness* - "the unique bundle of resources and capabilities a particular organization possesses because of the family firm system's interaction among the family, its individual members, and the business" (Cabrera-Suarez,

[5] See, for instance, Nonaka and Tackeuchi (1995).

Saa-Perez, & Garcia-Almeida, 2001, p. 38) – is, according to these authors, the main source of competitive advantage for a family-owned enterprise. Therefore, enhancing sustainability across generations in family business requires developing a set of organizational routines useful to make consciousness of the additional value attached to the specific relationship between a family and an enterprise.

In order to develop their model Cabrera-Suarez, Saa-Perez, & Garcia-Almeida refer to the work of Szulanski (1996), which distinguishes between four main barriers to knowledge transfer: casual ambiguity and unproven truthfulness; source's lack of motivations; receiver's lack of motivations; contextual factors, such as organizational constraints and low quality of the relationship between sender and receiver. This model provides a useful map to categorize the kind of problems that may inhibit the effectiveness of the succession process in family business, such as successor's and predecessor's motivations. For instance, succession may fail as consequence of participants' lack of motivation. Others contextual factors may be the lack of family cohesion and commitment to the business, the low quality of the relationship between predecessor and successor. Finally, a factor that may play a key role in smoothing the process of business transfer is successor's training. From this perspective, we need to distinguish between academic and experiential training. The first enable successor to better articulate and structure the process of knowledge transfer. The second helps successor to make sense of the business context.

A second paper that is relevant to our scope is Steier's (2001). This contribute studies the transferability of an asset that is complementary to firms' innovation capacity: social capital[6]. This is defined as a collective set of resources and competencies embedded in a network of relationships between firms and/or persons[7]. There are many dimensions to qualify the social capital. Nahapiet and Ghoshal (1998), for instance, distinguish between structural, relational and cognitive. The first mainly refers to the structural properties of the network, such as network density and cohesiveness. The second qualifies the nature and the character of a relationship, such trust versus power based, reciprocal and long-term versus short-term. Finally, the cognitive dimension refers to the cognitive resources shared within a relationship, such as a common language and system of beliefs. The extension and the quality of the social capital contribute to business in two major ways. The first is by smoothing cooperation. This implies a reduction of transaction costs (e.g. Williamson, 1975). The second is by enhancing knowledge mobility and sharing between firms and persons. This second factor, as we shall see, contributes to enhance innovation.

The availability of social capital results even more strategic for family owned enterprises because of their dimensions. These firms, in fact, are, at least on the average, of small and medium dimensions. It follows that their being "well connected" is strategic for having access to

[6] See, for instance, Nahapiet and Ghoshal (1998) and Tsai and Ghoshal (1998).
[7] See among other Granovetter (1985), Burt (1992), Coleman (1988), Nahapiet and Ghoshal (1998), Tsai and Ghoshal (1998) and Trigilia (2001).

complementary sources of production, but even more to enhancing their innovation capacity through interaction with complementary competencies and sources of knowledge and know-how. Furthermore the amount of social capital possed by the senior entrepreneur is usually remarkable due to the long tenure enable a superior accumulation of social capital during the first generation (Lee, Lim, & Lim, 2003). Therefore, it follows that the transferability of social capital across generations is strategic to ensure business continuity and sustainable development.

Steier (2001) identifies four modalities of transferring social capital across generations, which differ for their degree of conscious planning and management. The first two cases are characterized by almost no planning. Social capital is simply inherited as consequence of unexpected event. Therefore, successor has to spend a lot of time in making sense of the network of personal ties where the firm is embedded on. In the third case social capital is acquired through natural immersion. This implies that the predecessor did not make any effort to transfer her social capital, but successor has get access to it through time and experience. Finally, in the last modality social capital is consciously transferred. This implies that the successor, on the one hand, has structured the learning process in such a way that the successor will be, at the end of it, conscious of all the relevant persons and connections for the business and, on the other hand, has invested time in embedding the successor in the network.

Furthermore, Steier (2001) also defines seven means that successor often applies to manage social capital and that could be linked in a kind of life cycle. The first is deciphering social capital. The main objective is to construct an accurate map of all the connections relevant to the business with particular attention to weak ties. The weakness of those relationships makes them very difficult to map. However, they may result strategic for the future development of the firm because they point to areas of knowledge and competence that are distant form firms' core business and indeed potential source of innovation and network recombination[8]. The second step is to define the character of each relationship in terms of knowledge, degree of cooperativeness and trustworthiness, and so forth. Once the map of the network has been constructed, the third step is to evaluate the weight to attribute to each relationship in the future. Once defined the relevant network, successor has to legitimate his or her role in the network by proving his own identity and capacity. Predecessor, form this perspective, may often represent a barrier. The last two steps refer to the management of social capital. The first is to clarify his or her role in the network. Successor has to decide at least between three major roles: technical, managerial and stewardship. Once successor has delineated his or her role in the network, the next important step is to define a strategy to govern social capital by delegating the remaining roles and functions.

[8] See Granovetter (1985).

The last paper relevant to our topic is Litz and Kleysen's (2001). This paper explicitly focuses on the issue of family firm innovation. Their major goal is to understand to which extent familiness improves firm's innovation capacity. With this aim they develop a categorization useful to define family-based innovation processes. This categorization is based on the assumption that a family business is a business that develops across generations. It follows that innovation is family-based if and only if spontaneous interaction between family members across generations takes place and it is relevant to the process's outcome. Litz and Kleysen (2001) point out that innovation in family business may take place without both generations being involved. However, this is the outcome of two separated entrepreneurs rather than a collective effort of a family of entrepreneurs.

Furthermore, Litz and Kleysen (2001) in their paper explore the conditions for intergeneration family innovation by developing an in-depth case study of a "Brubecks jazz family". The story of this family seems to suggest that the secret of intergeneration innovation stay with the capacity of dynamically balancing power and trust, control and freedom in the developmental process of a senior-junior relationship. Both roles contribute to the quality of this relationship. On the one hand, parents should be able to set their children free to follow their pathway. This implies that it is their responsibility trying to stimulate their children to develop the necessary competencies to continue in the family business. However, they should not force them to follow their career. On the other hand, children should have a vision and be ready to take full responsibility for developing of that vision. However, intergeneration innovation does not take place in a context where each party is set free to follow his or her own interest and career. The joy of learning and develop new knowledge in common with your family is an additional requirements.

Linking entrepreneurship and innovation capacity: implications for the strategic management of business succession

Literature review has highlighted that previous contributions have mainly focused on the transferability of ownership and control across generation. However, we argue that an entrepreneur is not a manager, but an innovator. Therefore, business succession should contribute to enhance the level of entrepreneurship rather than efficiency. Therefore, this section's main objective is to reframe the role of the entrepreneur in order to enhance business succession strategy and design.

The concept of entrepreneur has been originally introduced by Cantillon in the XVI century with scope of emphasizing this role as different form landowner and employee. Their major characteristic, according to Cantillon, is that they make profit out of uncertainty. Therefore, their major capital is their ability to face risk and uncertainty. Entrepreneurs, according to Baumol (2002), have often played a marginal role in the economic literature. The reason is that this role is largely unspecified and indeed non measurable. Baumol

(2002) concludes his argument by suggesting that there is good reason why the concept of entrepreneur is not definable and it is its intrinsic link to innovation. In fact, innovation has to do with something that has never been done before. Therefore, it is impossible to define what entrepreneurs actually do.

Wennekers and Thuriks(1999), referring to the work of Hérbert and Link (1989), argues that in the literature there are three traditions on entrepreneurship. The first, neo-classical, defines entrepreneur someone who leads markets to equilibrium through her entrepreneurial activities. In neo-classical economic theory there is no room for entrepreneurship. Economic agents are assumed to be fully informed on price-quality. Therefore, the main function of the entrepreneur is to calculate the level of production that maximizes her utility function. Neo-classical tradition on entrepreneurship has evolved into two directions. The first is the one that see the entrepreneur as a creative response to X-efficiency (Leibenstein, 1968, 1979). The second, neo-istitutionalist, defines the entrepreneur as responsible for the coordination of production factors (Casson, 1982; Coase, 1937). The first development is grounded on agency theory. Therefore, entrepreneur's main function is to structurally align shareholder's objectives and manager's ones. The second one is grounded on transaction cost theories. This theory argues that firms exist because market transactions are costly. Therefore, under certain conditions it is cost-effective to perform those activities internally, under the direct control of the entrepreneur.

The remaining two traditions are both linked to the role of entrepreneur as innovator. However, their points of view are complementary (Nooteboom, 1993). The first, Austrian, defines the entrepreneur as someone who is capable to realize business opportunities that are induced by external shocks. Therefore, this perspective assumes innovation as an input variable that is exogenously determined. Entrepreneur's main task is to perceive the market opportunities incorporated in an innovation and translate them into market value. Therefore, this tradition focus its analyses on the factors improving entrepreneur's ability to perceive the potential incorporated into an innovation and translate it into value rather than on the role of the entrepreneur as innovator.

Finally, in the third tradition, German or Schumpeterian, the entrepreneur is seen as an innovator. Someone who changes consolidated organizational routines, develops new products and technologies and enter new markets. This view on the role of the entrepreneur has been originally introduced by Schumpeter. Even if this author is considered the father of innovation economics , this literature has devoted almost no attention to the role of the entrepreneur. This is mainly due to the fact that this literature has been mainly influenced by the later Schumpeter. In fact, the work of Schumpeter is typically divided in two parts. The earlier Schumpeter identified in the power of individual entrepreneurship as strategic for economic change. The later Schumpeter, on the contrary, abandons the

concept of entrepreneurship to make room for the institutionalization of innovation. This "inconsistency" between the earlier and later Schumpeter is often justified by the diffusion of the large American corporation and indeed of the industrialization of innovation. Earlier Schumpeter's theory, on the contrary, was mainly grounded on the empirical observation of the emerging European capitalism of the early twenties, which was dominated by small and medium enterprises.

However, in the last decade there has been a rediscovery of the concept of entrepreneurship. In our perspective this is mainly due to two major reasons. The first is the decline of the Fordist model of production, based on vertical integration. The progressive increment on the level of environmental complexity has meant the progressive transition toward network forms of organization. Even large corporations have attempted to make their structure more flexible by stimulating individuals' initiative and entrepreneurship. The second reason, which is intrinsically interlinked with the first, is that Schumpeter's thesis on entrepreneurship obsolescence was strongly grounded on the idea that technological development would have resulted into a progressive reduction of the level of uncertainty embedded in an innovative process. Therefore, innovation would have become a province of management rather than entrepreneurship. However, scientific and technological development has made the future more complicated rather than simplified and predictable[9]. Therefore, the need for individual and collective entrepreneurship has further increased.

Shane and Venkataraman (2000), in response to the growing interest toward the entrepreneurial function, have proposed a framework meant to give a foundation to this emerging field of research. Even if we do not share their view on entrepreneurship, their contribution is useful to structure this concept. According to their perspective, entrepreneurship is defined as the field that studies how, by whom, and with what effects opportunities to create future goods and services are discovered, evaluated and exploited. Their conceptualization focuses on two major aspects.

The first is perception. Entrepreneurs, according to Shane and Venkataraman (2000), differ from other people for their superior capacity to perceive market opportunities embedded in a new combination of resources. Therefore, entrepreneurs' major competitive advantage is information. This information can be exploited to achieve two major objectives. The first is to negotiate a lower price to get access to resources whose value has not yet been fully disclosed and exploited. The second is to gain profit out of being among the firsts in the market.

The second is entrepreneurial decision-making. Once an entrepreneurial opportunity is recognized, entrepreneurs need to invest time and money in pursuing it. Entrepreneur's decision to go on with the enterprise depends, according to Shane and Venkataraman (2000), on two major factors. The first is the expected value of the opportunity.

[9] See among other Giddens , Beck (1992) and Latour (1993).

Therefore, entrepreneurs allocate their resources on activities with a higher expected value. The second is entrepreneurs' attitude. There are a number of studies that accounts for individual's differences as one of the major factors that explain individual's proclivity to behave entrepreneurially. Being optimistic and bold are individuals' characteristics that are often positively associated to entrepreneurship.

Our major critic to the work of Shane and Venkataraman (2000) is that they do not recognize the ecological nature of value (Ganzaroli & Pilotti, 2006) and indeed the creative role of the entrepreneur. According to Shane and Venkataraman (2000), all the relevant information necessary to realize an innovative combination of resources is already available. Entrepreneurs' competitive advantage is reducible to their cognitive structure, which enact them to get access to the value embedded in that information before than others. Their revenues are justified by their investment in cognition. Transforming that information into market value does not involve any creativity and does not produce any additional competitive advantage.

Shane and Venkataraman's (2000) perspective on entrepreneurship is grounded on the neo-classical view on innovation. Innovation is defined as closed and self-explanatory body of information. Therefore, its market potential and value is already inscribed in the information itself and entrepreneurs do not contribute to the creation, but only to the exploitation of that value. Differently, we subscribe to the evolutionary perspective on innovation (Dosi, Freeman, Nelson, Silverberg, & Soete, 1988; Nelson & Winter, 1982; Nonaka & Takeuchi, 1995). In this perspective innovation is a contextual event. It is the local realization of a potential inscribed in an open ended and historical process of evolution. Therefore, innovation is not the linear transformation of a potential value that is already inscribed in a new technology, but a contextual chain of interactions and feedbacks that dynamically contributes to the social construction of that value. For instance Von Hippel (1988) has pointed out customers' innovative role. Customers, through their experience of use, provide valuable inputs to improve innovation's design. The same apply to suppliers, whose role is strategic to develop and implement the necessary components. It follows that the value of innovation does not pre-exist, but is ecologically co-constructed through a circular and virtuous network of feedbacks that feeds its development and evolution.

What is it the role of the entrepreneurs within this framework? In this framework entrepreneurs play two additional functions. The first is that of stimulating knowledge access, sharing and interaction within a community. Shane and Venkataraman (2000) argue that entrepreneurs, in order to make profit out of their activities, need to keep their information secret. They make profit out of information asymmetry. In our perspective, differently, we believe that is part of the entrepreneur function to stimulate interaction and participation through knowledge sharing and creation. The process of knowledge sharing is fundamental because stimulate people creativity through interaction. The case of open source software is, form this perspective, a corner stone (Ganzaroli

& Pilotti, 2005).. The developer of a new body of knowledge decide to share its value because by doing so stimulate other to contribute to the process of value creation. This enables, on the one hand, the production of new variety and knowledge. The variety increases because each participant contributes to the process of knowledge creation and development by integrating its personal experience. The increment in the variety available increases also the potential for new innovation (new combinations). Therefore, entrepreneurs benefit form opening access to their knowledge and information because by doing so they reestablish the basis for their role in the future. The second role is that of boundaries keeping. If it is true that entrepreneurs benefit form stimulating knowledge access and sharing, they also need to regulate access in such a way to prevent free riding and stimulate cooperation. The risk, in other words, is that someone enters the community with the sole aim of exploiting the value without contributing to its production. Therefore, it is task of the entrepreneur to prevent such a risk by governing accessibility in such a way that only who shows a positive attitude toward interaction and collaboration can enter and participate to the community. The open source model of software development is useful to our scope. In fact, the success of this model of development is largely dependent on the peculiar licensing regime, which provide consumer with the right to access and modify knowledge, but also with the obligation to share the value of their modifications The major advantage of this strategy of licensing is that creates a permeable boundary, which is capable of self-selecting people that are willing to share the value of their entrepreneurship and freedom to create.

What are the implications of such a perspective on the innovative role of the entrepreneur for the process intergeneration business transfer? Certainly intergeneration business transfer become more and more strategic because of its impact on the entrepreneurial function and also because of its influence on SME innovation capacity (William J. Baumol, 1993). From this perspective, not only the objective of this process is to transfer knowledge between generations, also enhancing the quality of entrepreneurial function as way to leverage innovation. Two are the major functions played by the entrepreneurs as catalyst of the innovation process. The first is to stimulate a process of knowledge sharing across firms' boundaries. We argue that innovation is the outcome of an open process of interaction between firms sharing a common context of knowing. It is one of the tasks of the entrepreneur to construct cooperatively with other a context that stimulates individuals' involvement and participation. Therefore, the quality of the social capital activated by each entrepreneur is strategic for firms' innovativeness. This implies that junior entrepreneurs should not only be socialized in the existing context of interaction, he/she should also familiarize with other contexts. This is a precondition to enhance the quality of the social capital across generation. The second is to provide access to new bodies of knowledge that are relevant for the future development of firms' innovation capacity. This implies that the process of succession should be managed so that contributes to diversify the knowledge-base and avoids conservatism and closeness. This is

particularly relevant in the case of Italian small and medium enterprises that are typically spatially agglomerated. The Italian clusters[10] are based on the flexible specialization (Piore & Sabel, 1984) between a large number of SMEs sharing a complementary technological specialization in a territorial network of common norms and values. This competitive frame has been until recently source of advantages both for the firms belonging to this network and for the regions where these networks have emerged. However, the main source of this competitive advantage, the possibility to share the costs of learning and innovation in a territorial network, is closed to be exhausted (Maskell & Malmberg, 1999)[11]. The main reason is that the extension of the network is insufficient to metabolize the degree of complexity generated by the global process of interaction between people, institutions and firms. The local network of shared norms and values has become a barrier to local knowledge creation because it constrains interaction rather than leverage it across geographical boundaries (Bathelt, Malmberg, & Maskell, 2004). Therefore, the process of business succession can contribute to eliminate this constraint with a new generation of entrepreneurs that are more open to interaction and cooperation across geographical and technological boundaries.

Exploratory analysis

In order to deepen our understanding on how and to which extent the process of business succession contribute to enhance firms' innovation capacity through the entrepreneurial function we develop and exploratory analysis on a sample of small and medium and family-owned enterprises.setteled in Emilia Romagna. In order to accomplish this task we develop a questionnaire and on interviews.

The questionnaire

In order to collect data we develop a questionnaire structured in two parts. The first part, which contained self-explicatory questions, has sent by e-mail. Entrepreneurs, prior to the sending, were contacted by phone in order to provide them with a full description of the project and of the questionnaire. Furthermore, the participation of both entrepreneurs (senior and junior) was solicited. The second part, whose compilation may have required same additional assistance, was collected through a series of telephone and direct interview. The questions of this part were linked to a five-point Likert-type scale from "absolutely no improvement/change" to "remarkable improvement/change". The questions were self-developed from the literature.

The first part of the questioner was structured in four sub-parts:

[10] We use the concept of cluster as closed substitute of the term industrial district as in Maskell (2001), Cooke and Huggins (2002) and Asheim and Isaken (2002). For a review about the meaning of cluster see Martin and Sunley (2003), Maskell and Kebir (2005) and Belussi (2005).
[11] For a picture of the Italian innovation system see Belussi (2003).

1. Firm's background and general innovation attitude (4 items);
2. Seniors' background, competence and experience (7 items);
3. Juniors' background, competence and experience (7 items);
4. Business succession strategy (4 items).

In the second there were mainly two sub-parts:

1. Senior's expected changes as consequence of business succession (33 items);
2. Junior's expected changes as consequence of business succession (33 items).

Data collection

Participants in the study were identified through a database containing the profile of 2541 best performers manufacturing SMEs settled in Emilia Romagna. From this database we extracted the small family firms operating in medium-high tech mechanical industry[12] (277) for two reasons: the key role of innovation in this industry and its weight on national and regional GDP. In this list 80 were the firms facing with business succession.

We contacted by telephone this list of enterprises and sent the first part of questionnaire. A total of 28 questioners were returned. However, two of them has not been computed because largely unfilled and/or largely untrustworthy. All the 26 firms were interviewed for the second part of questionnaire and the interview was made to at least one entrepreneur. Thus the usable data are from 26 firms, 50 senior and 50 junior. The respondents can be split the three groups, with 3 questionnaire filled only by owner-founder, 12 filled only by successor and 10 filled by both.

The structure of the sample

Broadly speaking, the family firm[13] investigated were micro and small family firms, settled in Emilia Romagna and operating in a medium-high tech industry, facing the problem of business succession.

Firms varied in size (Figure 1) and sales. Participant report a size ranging from 2 employees to 40 and turnover ranging from €150 thousand to €37 million annually. The firms were from first generation (21; 81%) and from the second generation (5; 19%). The average age of these firms is 23.8. The number of enterprises that are older than 14 is 20 (77%). Even if the majority of these firms are old, the number of enterprises where succession took place already is very limited (4; 15%). However, in 15 (58%) this process is in progress and in 7 (27%) is

[12] Now and then the term mechanical industry is referred to code 25 (Rubber and Plastic Products), 28 (Fabricated Metal Products), 29 (Machinery and Equipment Manufacturing) and 31 (Manufacture of Electrical Machinery and Apparatus) of NACE classification rev 1.1.

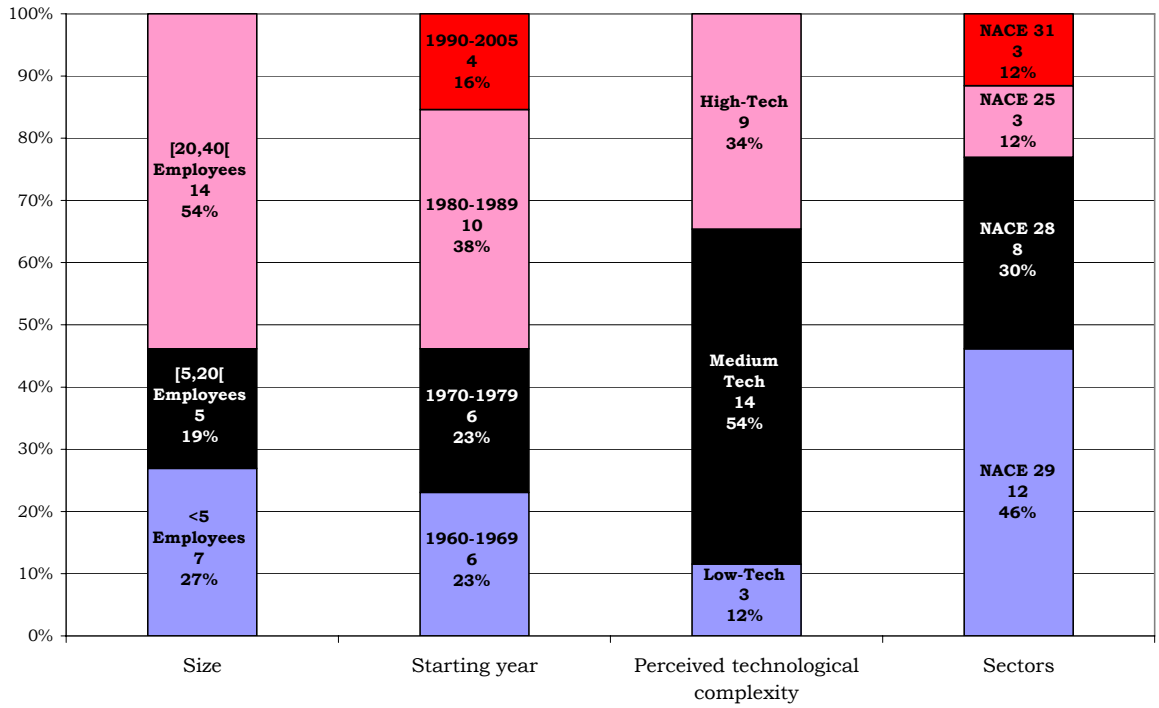
[13] For a picture of Italian family businesses and their pattern of development see Corbetta (1995).

beginning. Considering the entrepreneurs, the majority are junior (50), with 42 potential successors[14] and 8 successors.

Altogether the sample is little and geographically constraint it is consistent and representative of Italian demographic. According to 2001 Istat data, 98% of the manufacturing firms have less than 50 employees and they employ approximately 89% of the total manufacturing workforce. Also the mechanical industry is very important it contributes for more than 30% of industry sales (Istat, 2003). In a sample of Italian firms Cucculelli and Micucci (2006) found that the grater majority (84,7%) is older than 15 (Cucculelli & Micucci, 2006, p. 29) and only one third of Italian firms from 15 to 45 years old has already completed a succession process (Cucculelli & Micucci, 2006, p. 10). Furthermore in 2002 micro and small firms represented the 5,6% of the national expenditure in R&S (Istat 2004) and in 1998-2000 more than 35% of small firms were defined from Istat innovative firms (Istat 2000). In 2002 mechanical industry represented the 17% of the national expenditure in R&S (Istat 2004) and in 1998-2000 more than 40% of firms in mechanical industry were defined from Istat innovative firms (Istat 2000). Concluding, however the constraints the sample is enough solid to derive some interesting conclusions about the links between family business succession and innovation capacity.

Figure 1 summarize the main characteristics of our final sample.

Figure 1: Description of realized sample



The first part of questionnaire assesses firms' innovation attitude. It is useful for understanding what type of attitude the successor could inherit.

[14] We called them potential successor because the process of succession is not finished yet.

The technological complexity perceived[15] by the entrepreneur is on the average medium. However, it is significant the number (9) of high-tech firms. Firms' attitude toward innovation is positive, in the last five years these firms have innovated their (3 no answer):

- None innovation (1; 4%);
- Product (10; 43%);
- Process (5; 22%);
- Product and process (7; 30%).

Furthermore, these firms have also showed a positive attitude toward technological change. In the last five years they have (2 no answer):

- None change in machines (1; 4%).
- Replaced exiting machines (7; 29%);
- Improved existing machines (6; 25%);
- Adopted innovative machines and plants (10; 42%)

The main reasons for innovating are three:

- Improving flexibility (13; 50%)
- Improving quality (11; 42%)
- Adapting existing technology to the state of art in the field (11; 42% firms).

Other relevant motivations are:

- Modifying and extending the range of products (9; 34%);
- Improving employee's working conditions (9; 34%);
- Improving and/or defending market position (7; 27%).

Even if those firms characterize themselves for a positive attitude toward technological change and innovation, these processes are not institutionalized in the firms. The number of firms performing research and development activities with regularity is 8 (31%). However, none of them has an internal organizational unit or a single person devoted exclusively to this activity. Finally, 4 (15%) firms have developed a long term relationships either with the university or with a research institute. Furthermore, they have had access to public research and development funding.

Empirical findings

The main findings from exploratory analysis are two. The first one is that business succession does not enhance firms' innovation capacity. Actually it might impact negatively on its development. The second one is that both entrepreneurs' generations (predecessor and successor) have the same no innovative vision of the future.

[15] We asses the technological complexity perceived with 3 item based on a five-point Likert-type scale.

Seniors, in fact, do not expect next generation introduces any remarkable change or improvement on the management aspects considered (Table 1.A). The activities were there are slightly expected changes are: information integration, investing in ICT related to production and administration management, product engineering, product innovation, capacity to invest in new technologies, reputation for quality management, information accessibility and capacity to respond to market changes. The majority of these activities are related to ICT, two to technical aspect and only one has a strategic importance.

The novelty that exploratory analysis points out is that also next generation does not expect to introduce important changes on existing business practice (Table 1.B). Activities that successors expect to improve are the same of predecessor. Furthermore, when juniors expect to contribute to the development of those assets, the expected improvements are slights.

Table 1: Expected changes introduced due to business succession

ACTIVITIES	(A) SENIOR		(B) JUNIOR	
	MEAN*	N/A	MEAN*	N/A
ORGANIZATIONAL AND PRODUCTION MANAGEMENT	*3,6*	*0*	*3,9*	*0*
Efficacy in stock management	3,1	1	3,7	1
Logistic management	3,5	0	3,8	0
Cost reduction	3,3	1	3,6	0
Quality certification	3,6	4	3,9	5
Product testing and quality	3,8	0	3,9	0
Information integration	**3,8**	**1**	**4,0**	**0**
Investing in ICT related to production and administration management	**4,1**	**1**	**4,1**	**1**
Product engineering	**3,5**	**2**	**4,0**	**2**
HUMAN RESOURCE MANAGEMENT	*3,1*	*1*	*3,5*	*0*
Improving firm's size	2,9	1	3,4	1
Human resource selection and training	3,1	1	3,5	0
Human resource motivations	3,3	1	3,6	0
INNOVATION MANAGEMENT	*3,6*	*0*	*3,9*	*0*
Product innovation	3,7	0	4,1	0
Time to market	3,3	1	3,7	1
Product quality	3,5	0	3,9	0
Capacity to invest in new technologies	**3,7**	**1**	**3,9**	**0**
MARKETING MANAGEMENT	*3,2*	*0*	*3,9*	*0*
National market penetration	3,3	0	3,7	1
Internationalization	3,0	3	3,6	3
Branding and communication	3,2	0	3,9	0
Brand management	3,0	1	4,1	2
Reputation for quality management	**3,7**	**0**	**4,1**	**0**
RELATIONSHIP MANAGEMENT	*3,4*	*0*	*3,9*	*0*
Customer service	3,5	0	4,0	0
Inter-organizational information systems	3,5	0	4,1	0
Inter-organizational partnerships	3,2	0	4,0	0
Institutional relationships	3,1	1	3,6	2
FINANCIAL MANAGEMENT	*3,2*	*0*	*3,4*	*1*
Capacity to attract venture capital	3,2	0	3,6	1
Capacity to attract running capital	3,2	0	3,4	1
Capacity to attract new shareholders	3,1	2	3,3	6
STRATEGIC MANAGEMENT	*3,4*	*0*	*3,7*	*0*
SWOT analysis	3,3	1	3,5	0
Codified knowledge accessibility	3,4	2	3,6	1
Capacity to forecast market changes	3,3	1	3,8	0
Information accessibility	**3,8**	**0**	**3,9**	**0**
Capacity to respond to market changes	**3,8**	**0**	**4,1**	**0**
ICT training	3,2	0	3,5	2

*: Mean of five-point Likert-type scale from "absolutely no improvement/change" to "remarkable improvement/change"

Thus far we have argued that generally senior and junior entrepreneurs have no positive expectation about the influence of business succession on firm's competitive profile. Now the objective is now to understand if the vision of the future is the same for both generations.

To test the difference between two groups' (predecessors and successors) vision the nonparametric Mann-Whitney (U Test) and Wilcoxon (W Test) tests come appropriately. Although to test differences

between two groups the *t* test is the method of choice, it assumes that the sample mean is a valid measure of center. This assumption is invalid with variable data Likert rating because they are ordinal.

Data shows that generally speaking there is no significant difference between incumbent's perspective and successor's one (Table 2). However there are four activities in which two generations' vision differ statistically. In all this activities successor's expectation is more positive than predecessor's one. The first two are strictly connected and concern to branding and communication practices. Also the second are related and concern to relational asset (Table 2). The latter finding is consistent with the literature (Steier, 2001, p. 274).

In summary, next generation's perspective on which are the main strategic leverages to enhance firms' innovation capacity and, on the way, to conduct family business is not different from the prior generation's one. Therefore, juniors are mainly socialized to their parents' business visions.

Four different reasons emerged from data to explain these finding: education level of next generation, lack of working experience outside family business, absence of trust in the successor's abilities and absence of buy-out deals.

Table 2 Mann-Whitney and Wilcoxon tests means comparison by generation

Activities	Mean Rank*		U Test	W Test	z	Asymp. Sig. (2-tailed)
	(A) Senior	(B) Junior				
Organizational and Production Management						
Efficacy in stock management	13,75	18,86	87,0	165,0	-1,52	0,128
Logistic management	15,85	19,27	115,0	206,0	-1,00	0,313
Cost reduction	15,42	18,64	107,0	185,0	-0,96	0,334
Quality certification	11,83	14,38	61,5	106,5	-0,89	0,370
Product testing and quality	17,31	18,41	134,0	225,0	-0,33	0,741
Information integration	16,50	18,05	120,0	198,0	-0,45	0,648
Investing in ICT related to production and administration management	16,50	17,29	120,0	198,0	-0,23	0,811
Product engineering	12,36	18,00	70,0	136,0	-1,77	0,075
Human resource Management						
Improving firm's size	13,96	18,74	89,5	167,5	-1,59	0,112
Human resource selection and training	14,00	19,41	90,0	168,0	-1,70	0,089
Human resource motivations	15,13	18,80	103,5	181,5	-1,16	0,244
Innovation Management						
Product innovation	14,92	19,82	103,0	194,0	-1,46	0,144
Time to market	14,33	18,52	94,0	172,0	-1,33	0,180
Product quality	15,27	19,61	107,5	198,5	-1,31	0,189
Capacity to invest in new technologies	16,00	18,32	114,0	192,0	-0,68	0,491
Marketing Management						
National market penetration	15,31	18,86	108,0	199,0	-1,07	0,283
Internationalization	12,30	16,42	68,0	123,0	-1,39	0,163
Branding and communication	**13,31**	**20,77**	**82,0**	**173,0**	**-2,25**	**0,024**
Brand management	**9,79**	**20,53**	**39,5**	**117,5**	**-3,39**	**0,001**
Reputation for quality management	15,38	19,55	109,0	200,0	-1,22	0,221
Relationship Management						
Customer service	15,00	19,77	104,0	195,0	-1,42	0,153
Inter-organizational information systems	14,92	19,82	103,0	194,0	-1,44	0,150
Inter-organizational partnerships	**13,23**	**20,82**	**81,0**	**172,0**	**-2,24**	**0,025**
Institutional relationships	**12,71**	**18,78**	**74,5**	**152,5**	**-2,06**	**0,039**
Financial Management						
Capacity to attract venture capital	14,73	19,21	100,5	191,5	-1,50	0,133
Capacity to attract running capital	15,38	18,81	109,0	200,0	-1,18	0,237
Capacity to attract new shareholders	13,14	14,59	78,5	144,5	-0,64	0,518
Strategic Management						
SWOT analysis	16,50	18,05	120,0	198,0	-0,51	0,609
Codified knowledge accessibility	14,91	17,33	98,0	164,0	-0,77	0,440
Capacity to forecast market changes	14,00	19,41	90,0	168,0	-1,68	0,092
Information accessibility	16,88	18,66	128,5	219,5	-0,53	0,593
Capacity to respond to market changes	15,35	19,57	108,5	199,5	-1,28	0,198
ICT training	15,73	17,83	113,5	204,5	-0,68	0,495

Next generation's education level

The first reason is next generation's education level (Table 3.B). In the field of family business research there is overwhelming support for the significant influence on next generation performance played by education level of successor (Cabrera-Suarez, Saa-Perez, & Garcia-Almeida, 2001; Steier, 2001; Venter, Boshoff, & Maas, 2005). The number of successors that are graduated is 5 (10%) but only 2 with a science focus. By far the greater majority (39; 80%) successfully completed secondary school. 24 have a secondary degree in business administration and accountancy, 11 on technical matters and 5 on general matters. The remaining 6 have a primary school degree. Next generation's education level is better than predecessor's level (Table 3). Nevertheless next generation's educational level does not meet requirements needed to be an entrepreneur in a knowledge-based economy. In fact, in this context it is not longer enough just to know how to perform a specific activity and/or function. On the contrary, being competitive requires being able to create new knowledge. It requires being capable to access to the codified knowledge and contribute to the global process of knowledge creation (Maskell & Malmberg, 1999; Varaldo & Ferrucci, 1996).

Table 3: Juniors' and Seniors' education level

DEGREE	(A) SENIOR		(B) JUNIOR	
	FREQUENCY	PERCENTAGE	FREQUENCY	PERCENTAGE
Primary School	26	63%	5	10%
Secondary school – Technical	10	24%	11	22%
Secondary school – Business administration and accountancy	3	7%	24	49%
Secondary school – General	2	5%	4	8%
University	0	0%	5	10%
TOTAL	41	100%	49	100%
No answer	0	#	1	#

Furthermore emerge from data that next generation's lack of commitment toward the value of codified knowledge (Table 4). There are two main reasons that can explain it.

The first one is the senior's education and development. Predecessors are self-made entrepreneurs. Their level of school education is on average low (Table 3.A). None is graduated. The majority has a secondary diploma, which includes who has a professional one. They started to work in a young age, the majority started before 25 years old. They made at least an experience as employee before deciding to start their own business (Table 5.A). Indeed, senior entrepreneurs are the "outcome" of a specialization process based on learning-by-doing which is typical of industrial district model of development[16]. Therefore, according to seniors being an entrepreneur basically mean to work hard (Table 6). Both family and formal education do not play a relevant role

[16] For a comprehensive analysis in English of the dynamic that characterizes the development of this model see Dei Ottati (1996) and Pilotti (1999).

in shaping entrepreneurial competencies and attitude. This idea is largely reflected on juniors' perception on being an entrepreneur (Table 4). Even tough successors recognize formal education as relevant, working experience is still widely perceived as the primary source of entrepreneurial competencies. Furthermore, it should be noted also that second generation put more emphasis on the family role. This confirms the great influence of predecessor and family on successor in term of culture values, entrepreneurial attitudes and behaviors (Cabrera-Suarez, Saa-Perez, & Garcia-Almeida, 2001).

Table 4: Factors contributing to the formation of entrepreneurial competencies – Junior's perspective

Entrepreneurial Competences	Factors				
	Working experience	Family context	Formal education	Total	N/A
Attitude toward problem solving	54,3%	17,1%	28,6%	100%	1
Attitude toward entrepreneurship	35,3%	44,1%	20,6%	100%	0
Social relationships	55,9%	17,6%	26,5%	100%	0
Attitude toward risk	69,0%	13,8%	17,2%	100%	0
Attitude toward negotiation	74,2%	9,7%	16,1%	100%	0
Attitude toward team-working	44,1%	14,7%	41,2%	100%	0
Creativity	61,8%	14,7%	23,5%	100%	0
Technical knowledge and competence	31,0%	7,1%	61,9%	100%	0
Marketing knowledge and competence	51,4%	5,7%	42,9%	100%	0
Administrative knowledge and competence	36,1%	8,3%	55,6%	100%	0
Working commitment	46,7%	50,0%	3,3%	100%	0
Communication Skills	64,7%	17,6%	17,6%	100%	0
Motivating skills	60,0%	13,3%	26,7%	100%	0
Total	51,8%	17,6%	30,6	100%	#

Table 5: Juniors' and Seniors' working experience

Previous Working experience	(A) Senior		(B) Junior	
	Frequency	Percentage	Frequency	Percentage
None previous experience	6	14,6%	26	56,5%
Partners of another firm – same industry	7	17,1%	1	2,2%
Partners of another firm – different industry	3	7,3%	0	0,0%
Employee of this firm	1	2,4%	4	8,7%
Employee of another firm- same industry	18	43,9%	4	8,7%
Employee of another firm – different industry	6	14,6%	11	23,9%
Total	41	100%	46	100%
No answer	0	#	4	#

Table 6: Factors contributing to the formation of entrepreneurial competencies – Seniors' perspective

Entrepreneurial Competences	Factors				
	Working Experience	Family-Context	Formal Education	Total	N/A
Attitude toward problem solving	83,9%	3,2%	12,9%	100%	0
Attitude toward entrepreneurship	75,9%	20,7%	3,4%	100%	0
Social relationships	86,2%	6,9%	6,9%	100%	0
Attitude toward risk	96,0%	4,0%	0,0%	100%	1
Attitude toward negotiation	100,0%	0,0%	0,0%	100%	2
Attitude toward team-working	88,0%	12,0%	0,0%	100%	1
Creativity	88,0%	8,0%	4,0%	100%	1
Technical knowledge and competence	74,2%	3,2%	22,6%	100%	0
Marketing knowledge and competence	96,0%	4,0%	0,0%	100%	2
Administrative knowledge and competence	80,8%	7,7%	11,5%	100%	2
Working commitment	73,3%	20,0%	6,7%	100%	0
Communication Skills	96,0%	4,0%	0,0%	100%	2
Motivating skills	96,0%	4,0%	0,0%	100%	2
Total	86,6%	7,7%	5,7	100%	#

The second one is the value of formal education in the environmental context. Data are insufficient to argument such a claim. However, starting from the assumption that the majority of successors have grown up in a cluster where the value of formal education is not particularly prized, their poor attitude toward school education and codified knowledge may be caused by the environmental context as well as by seniors' attitude. Consequently even though predecessor prizes the value of formal education, local context plays an important conditioning on the successor's commitment and values.

Lack of working experience outside family business

The second reason that affects negatively next generation's vision of the future is the lack of working experience outside of the family business. 65.2%[17] of juniors started to work in the family business (Table 3.B). Furthermore, in 22 cases (out of 23 and 3 no answer) apprenticeship and training on the job are the main strategies put into place to manage business succession and transfer entrepreneurial competencies. Even though the experience in family firm it is important to familiarize with the business, experience outside help to gain self-confidence, knowledge and new ideas and to develop an identity (Nelton, 1986, p. 34). In fact, a right mix of outside and inside training experience is fundamental to acquire technical and managerial knowledge of the business and leadership abilities (Cabrera-Suarez, Saa-Perez, & Garcia-Almeida, 2001, p. 42). Moreover it plays a key role in creativity and innovation process (R. A. Litz & Kleysen, 2001, p. 345). Thus the level of preparedness of next generation is significant

[17] 56,5% started as entrepreneur and 8,7% as employee.

influenced by training experience outside family business (Venter, Boshoff, & Maas, 2005, p. 298). A limit of exposure to working experience outside family firm develops in successors an imperative commitment (mind set of need) (Sharma & Irving, 2005, p. 24) to family business. "Imperative commitment will have very weak or even negative relations with discretionary behaviours on the part of successors" (Sharma & Irving, 2005, p. 28) and it will negatively affect the future firm innovation capacity.

Absence of trust in the successor's abilities

The absence of trust in successor's abilities is the third factor that inhibits the potential link between business succession and firm's innovation capacity (Table 1.A). Indeed not only the low expectations of senior represent an absence of trust in the successor's abilities, it also is a crucial lack of motivating forces for junior (R. A. Litz & Kleysen, 2001, p. 339).

The literature has already pointed out intergenerational mutual trust as relevant for successfully transferring family business (Chrisman, Chua, & Sharma, 1998; Goldberg, 1996; Handler, 1989; Szulanski, 1996) The trust of the family is critical to support the successor with the necessary power to lead the family firm and obtain credibility and legitimacy (Goldberg & Wooldridge, 1993; Handler, 1989; Venter, Boshoff, & Maas, 2005). Seniors back up is even more critical if the successor has innovation of existing business practices as a mission (R. A. Litz & Kleysen, 2001). In fact, successor will not only have to confront with the natural organizational resistance (Klein & Sorra, 1996), also with the one generated by its lack of strength and stakeholders' recognition as new leader.

Absence of buy-out deals

Finally, the absence of alternatives to intergeneration business transfer is the last factor. From exploratory analysis emerge that buy-out deals are not an option. The firm is perceived as a property of the family. Therefore, its existence is inconceivable outside family's boundaries. In 72 % of the cases (18) ownership has been or is going to be transferred to a son and/or a daughter (Table 7). In two cases ownership is going to be transferred to a parent. However, it should be noted that in one of those this decision is justified by the lack of an heir. There are only two cases of buy out. The first is a case of ownership transfer to an ex-employee. The second is a case of aperture to third party outside the family. Furthermore, it should be noted that business succession is not even perceived as the opportunity to separate between ownership and control. Predecessors perceive these two dimensions as inseparable. Thus, they tend to progressively delegate managerial functions to their parents to focus on the role of coordinator.

Table 7 New manager and new owner in family firm after business succession

SUCCESSOR	NEW OWNER		NEW MANAGER	
	FREQUENCY	PERCENTAGE	FREQUENCY	PERCENTAGE
Son/daughter	18	72,0%	17	73,9%
Parent	2*	8,0%	2*	8,7%
Manager	0	0,0%	0	0,0%
Ex-employee	1	4,0%	1	4,3%
Son/daughter and ex-employee	3	12,0%	2	8,7%
Others alternative	1**	4,0%	1**	4,3%
TOTAL	25	100%	23	100%
No answer	1	#	3	#

*: In one of these cases there was not direct heir.
**: There was not direct heir.

Moreover predecessors declare that the most important factor for the successor's choice is the family connection (Table 8). This attitude of seniors toward business succession can affect negatively the willingness of successor (Cabrera-Suarez, Saa-Perez, & Garcia-Almeida, 2001, p. 41; Sharma, 2004, p. 13; Venter, Boshoff, & Maas, 2005, p. 297). It also could develop a normative commitment (mind set of obligation) (Sharma & Irving, 2005, p. 22) to family business. Thus it represents a constraint to family firm innovation (Sharma & Irving, 2005, p. 27).

Table 8 Factors that affect the successor's choice (n=21)

FACTORS	MEAN*
Family connection	4,7
Education's level	3,2
Knowledge of business/industry	3,2
Working Experience	2,4
No answer	4

*: Mean of five-point Likert-type scale from "weak importance" to "strong importance"

Conclusion

Summary

The present research was aimed at understanding if and how business succession and innovation capacity in micro and small family are related. Family business succession is a strategic problem for the sustainable development of European economy, which strongly depends on the role of family firms (Sharma, 2004, p. 22). Innovation capacity is likewise strategic to compete in a global market and in a knowledge-based economy. Although the interest in family firm research is increasing (1Sharma, 2004) this crucial relationship has received limited attention.

The development of our conceptual framework rested upon knowledge-based view and creative entrepreneur view. Thus we claim that family business succession could represent a way to enhance firms' innovation capacity and the protagonist of this process is the entrepreneur. According to our framework succession could be interpreted as a process of autopoiesis (Maula, 2000). To date this is

one of the first researches that empirically study the impact of family business succession on innovation capacity.

Limitations and future research

Although the present study is an original contribution to the field of business succession in micro and small family firms, it has some biases and limits. The sample used might picture a positive for three reasons. The first one, the database that we used collects the best firms of the regions in terms of practices and performances. The second one, Emilia Romagna region is one of the most advanced and rich regions[18], it is considered one of the best Regional Innovation System (Braczyk, Cooke, & Heidenreich, 1997) and it is located in the so called Third Italy (Bagnasco, 1977). The third one, firms in the sample are all from specialized suppliers industries[19]. Thus firms may be characterized by a more positive attitude toward innovation, which may have a positive impact on the succession strategy. Moreover the sample is constrained to micro and small firms, working in the mechanical and plastic industry and operating in a medium-high tech industry.

Further investigation would be worth to extend the research to other regions and other industries and controlling whether the size and sector technology level affect the results.

Contributions and implications

Exploratory analysis shows that succession process is not related to an enhancement of firm innovation capacity. Following proposition summarize the findings:

- *Proposition 1:* Prior generation and next generation have no positive expectation about the influence of business succession on firm's competitive profile.
- *Proposition 2:* Juniors are strongly socialized with senior's vision of future business.
- *Proposition 3:* The opportunity to create new knowledge, visions, and, finally, to enhance firms' innovation capacity are reduced mainly by:
    - *Proposition 3a:* Senior entrepreneurs do not pay much attention on the junior's development in term of formal education and outside training experience. However they strongly influence the next-generation's development pattern. Successors also do not take responsibility for his level of preparedness.
    - *Proposition 3b:* The absence of intergenerational mutual trust.

[18] According to a study of Unioncamere (2005) based on Eurostat data, this region is, with a GDP per capita of 28.870 (Standardized Purchasing Power) equal to 43.2% of the first (Inner London), the tenth in the ranking.
[19] See Pavitt (Pavitt) for a definition of a supplier specialized industry.

- *Proposition 3c:* Prior generation does not take into consideration the possibility to buy-out the business or to separate ownership and management and develop managerial governance. In large majority family business is naturally transferred to direct heir. The owner/founder strongly expects next generation assumes the leadership of firms. This attitude constrains willingness of next generation and promotes a weak commitment of successor to family business.

Consistent to conceptual framework adopted we derive from the analysis some practical implications at firm level and at regional/institutional level.

At firm level, we highlight the strategic role played by the entrepreneur as creative innovator. In fact, not only entrepreneurs provide financial capital to run the business or coordinate activities within the company, they also provide visions and mobilize the creative capital that is embedded within local and global network of interpersonal relationships. Therefore, juniors' entrepreneurs should be trained to be capable to face the growing complexity that is embedded in global network of knowledge creation. They should be learned to the management of cross-cultural relationships and to the value of scientific knowledge to leverage firms' sustainability.

At regional/institutional level a strategic role is assigned to local-institutions and associations between firms. We claim that an entrepreneur is not a value to a family or a firm, but to a community (Gallo, 2004). In fact the entire community benefits for the activities that he or she is capable to activate and develop in the territory. Thus the problem of transferring firms' ownership and management does not concern only the family and its stakeholders. Local institutions and associations should invest on the development of specific services. On the one hand, they should help senior to develop a consciousness on the relevance of such a problem and on management of this process. On the other hand, they should support juniors' development promoting specific path of education and training (W. Baumol, 2004). Finally, these institutions should also support seniors to consider the managerialization of the firm and buy-outs deals as a valuable option to the natural business transmission.

Certainly the topic of relationship between innovation and succession in family firm is an unexplored and promising field of research. This paper is one of the first contributes that try to explore the succession process in an autopoietic view (Maula, 2000).

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