The human side of business transfer:
A role transition perspective on succession in family owned firms

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by

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Introduction

When “business transfer” is on the agenda what is discussed is often the selling/buying of a business. When the business is sold and the previous owners leave the business, the transfer occurs in the twinkling of an eye. Signing a contract does not take many seconds, and as the contract is signed and the shares are transferred the previous owners/managers have no more say in what used to be their business.

Many transfers are, however, not that “black or white”. For instance, when a business is transferred within the family, the transfer is often more processual. Often, within-family-transfers happen over an extended period of time, where ownership is only gradually transferred from senior to next generation. In cases where the main owner is also CEO of the business it is often the transition of this role to a next generation family member that marks the start of the whole transfer process. The majority of shares will often not be transferred until the senior owner/ex CEO knows he or she can trust the next generation will run the business in a responsible way.

Perhaps no other family business issue has been devoted so much attention as the issue of succession. This is, however, hardly surprising since succession can be seen as the ”ultimate test of the family business” (Gersick et al 1997:193), involving issues of technical, organisational, and psychological character (Kets de Vries 1996). Researchers on family business (Gersick et al 1997, Handler 1994) emphasise that succession must not be understood as a single event. Instead, succession is a ”multistage process that exists over time, beginning before the heirs even enter the business” (Handler 1994:134). During this process, both the present manager and the successor should get used to their roles and learn how to handle their new situations, which includes both practical skills and emotional challenges.

The aim of this paper is to contribute to the understanding of the human side of business transfer from the perspective of role theory. By viewing business transfers as processes of role transitions, we are able to understand more of the inter-personal, human aspects of business transfers. Business transfers are complex and challenging as go far beyond technical, juridical and financial issues. In essence business transfers are about aspects which might be tacit and hard to grasp, but that – just because of their elusive nature – have a considerable influence on the outcome of succession.

Introducing the concept of role

The concept of role is one important building block in understanding human behaviour and it is used to show the “context bound nature of human life” (Burr: 1995:25). As members of social settings, individuals occupy several roles, i.e. positions in a social context (Ashforth, 2001) with different expectations on their behaviour. Role is a concept originally used in the context of the theatre. In a similar way, “roles in group structure behaviour by dictating the “part” that members take as they interact” (Forsyth, 1990:111). This means that studying organisations is, in essence, the study of acts. Above all, it is the study of people interacting with each other. Since roles “partly determine our vantage point and perspective of the world (Parkinson, 1985:202) they consequently influence individuals’ the emotions, interpretations, and actions.

Hence, role theory has the potential of contributing to the understanding of business transfer. In this paper, an understanding of business transfer is provided, resting on the notion that a substantial part of the dynamics of business life, including times of change like transfers, implies the sensibly handling/management of role transitions. As pointed out by Katz and Kahn (1978) role theory links the individual and the organisational level "by making explicit the social-psychological processes by which organisational roles are defined and role behaviour is evoked in the ongoing organisation" (p. 187f.).

Family businesses: a context of complex role relationships

Family firms are often depicted as a social context characterised by complex role relationships. In research, this complexity is often visualised as the three circle model. A member of a business family can have three different roles within the context of the family firm: family member, an operational role in the business and owner. Because these different roles are played out in one and the same context – the family firm – the role boundaries between these roles can be said to be rather weak.

Role boundaries is described by Ashforth (2001) as "mental fences", that function as a means of reducing the complexity or the world by selectively directing attention to certain phenomena whilst excluding others. Through the boundaries, reality is divided into well-defined areas, to which the individual attaches special meaning. Accordingly, a role boundary refers to what delimits the scope of the role, of which two important dimensions are time and space. Often roles are enacted at certain times a day, and/or in certain locations (as for instance the role as surgeon who only can do his or her job in certain locations). Further, role boundaries differ with respect to their flexibility and permeability, making roles as either segmented or integrated. Highly segmented roles are characterised by inflexible and impermeable role boundaries. Therefore, the contrast between the role identities is relatively high (i.e. contrast between the roles as surgeon and mother). "Highly segmented roles tend to have little similarity between the role identities that inform each role, i.e. between the goals, values, beliefs, norms, interaction style and time horizon that constitute each role identity (Ashforth, 2000:476). A surgeon that also is a mother rarely enact both roles at the same time. At work the surgeon enact her professional role – at home the role as a mother. It is rarely that these two roles collide – since they are simly not enacted in the same place at the same time.

Roles that are highly integrated – as in the family business – are, on the other hand, characterised by flexible and permeable boundaries, implying that they could be enacted independently of time and setting. This means that a person physically located in the setting of one role is able to enact another role in the same setting. This makes the contrast between the roles (their identities) relatively low. One obvious risk with highly integrated roles is role blurring, i.e. a feeling of confusion regarding which of the roles should be most salient. Highly integrated roles implies that "decoupling the roles psychologically, disengaging from one role in favour of the other (Ashforth, 2000:481) might be very difficult, not seldom resulting in role blurring and "role spillover" (present when moods, stress and thoughts generated through one role domain influences other domains" (ibid: 477). As pointed out by Ashforth, this is an often reocurring dilemma for family members working in the family business.

Roll spillover is, further, a source of role conflict. Role conflict is at hand when specific patterns of behaviour in one role is incompatible with expectations regarding behaviour in another role" (Greenhaus and Beutell, 1985). The risk for role conflict increases rather when the roles held by a person belongs to the different categories socio-emotional role and task role (Forsyth, 1980). The task roles of a group are typically focused on the performance of the group and might include roles such as information seeker and giver, elaborator, coordinator, evaluator and procedural technician. Socio-emotional roles, on the other hand, are designs as to satisfy the socio-emotional needs of the group members. Individuals enacting these roles typically act as encouragers, harmonisers, compromisers, group observers and commentators, and followers (i.e. accepts the ideas offered by others and serves as an audience for the group).

As these roles fulfil different needs, it is difficult for one individual to fulfil them both. A task specialist must exert power, give orders to other, make judgements of and criticise others' performance, and restrict others' behaviour, something which can evoke negative reactions, stress, and frustration. Because the enactor of the task role is the source of this negative implication, someone else should better take the role of easing these effects. "The peacekeeper who intercedes and tries to maintain harmony is the socio-emotional specialist" (ibid: 114). So might the stereotype of the caring, emotional mother - socio-emotional role - be regarded incompatible with the stereotype of the effective, rational, performance-oriented CEO – a task-oriented role. If someone occupying both these roles is not able to adjust his or her behaviour in accordance with the expectation of these roles (or perceive the roles as not opposing each other), the simultaneous enactment of these roles are likely to result in role-conflict.

Taken together, this means that the family firm is a context of rather complex role relationships. And it is in this very context, where individuals are forced to deal with different and often conflicting roles, that role transitions must take place in order for a business transfer to be successfully carried out between generations.

Roles fulfil basic human needs

Roles have a pervasive influence on behaviour as role enactment fulfils four important psychological needs: identity, meaning, control and belonging (Ashforth, 2001). Role enactment is closely related to the concept of identity- and self-construction, and self-knowledge (Horrocks et al., 1972; Ashforth 2001; Thoits and Virshup, 1997; Turner, 1978). Self-knowledge refers to the learning about the self through the role, in the sense that an understanding of who the self is gets mediated through the social position, i.e. role occupied. Continuously learning who they are, individuals seek opportunities for self-expression, i.e. to enact the roles they value the most, and identify with. This is for instance the case with roles that are self-enhancing, i.e. that contributes to the individuals self-esteem. When a certain role implies a certain connotation of the self, it is conceptualised as a role based identity (or simply role identity). An especially strong form of role identity is role identification, or role-person merger (Roos and Starka, 1981), which is at hand when a person does not just connotes herself to the role, but rather defines herself in terms of the role identity (Ashforth, 2001).

In owner-managed firms this is usually the case with the role as CEO. Owner-managed firms are characterised by the same person being both owner and CEO. However, it is the role as CEO that the owner-manages usually identifies closest with. In many cases this identification is so close that it is relevant to talk about role-person merger. It is in the role as CEO that the owner-manger is active on a daily basis in the business. Often owner-managers stay in the role as CEO for a lengthy period of time, which also contributes to the strong role identification.

Besides the need for identity, role enactment fulfils the need of belonging, defined as a "pervasive drive to form and maintain at least a minimum quantity of lasting, positive, and significant interpersonal interactions" (Baumeister and Leary, in Ashforth, 2001:70). A third psychological need is meaning (Thoits and Virshup, 1997). While identity addresses the question "Who am I?", meaning deals with the basic question "Why am I?", i.e. the need of individuals to find a purpose to which they matter. The "meaningfulness" of a role refers to "a sense of purpose and significance associated with the role beyond the role's obvious formal duties and requirements" (Thoits and Virshup, 1997:64). The fourth psychological motive, the motive for control, is referred to by Ashforth (2001) as "a motive to master and exercise influence over subjectively important domains" (p. 67). Control is a rather complex motive, consisting of a number of concepts such as ability, discretion, and power.

In owner-managed firms, also these needs - belonging, meaning and control – are met through the role as CEO. In the role as CEO the owner-manager is socially connected to other people, both inside the business and through the different social networks which the role as CEO gives access to. A CEO is in the middle of things and have the possibility of influencing the future in the direction of his or her own preferences and values. Hence, also the needs of meaning and control are fulfilled by the role as CEO.

But what about the role as owner, one might ask. After all, an owner-manager is also owner. Why would it be so difficult to give up the role as CEO if one is still owner of the company? It is, however, not enough to merely occupy a role to have the psychological needs fulfilled. The fulfilment of these psychological motives is conditioned by role clarity, i.e. by clear expectations on the role (Roos and Starke, 1981). In the opposite situation of role ambiguity, when the requirements of the role are not clear (or contradictory), a role occupant is not sure of how to appropriately enact the role. This might lead to feelings of bewilderment and frustration and hesitation to enact the role. As a consequence, the fulfilment of the psychological needs is counteracted or even obstructed.

When someone is simultaneously owner and CEO it is the latter role that tends to be most obvious. Almost all activities and social contacts are related to the role as CEO. The role as owner is more in the background and not as actively enacted. As this role tends to be more diffuse and unspecified it does not contribute to the human needs the way the owner role does. For this reason it is often a huge challenge to leave the role as CEO even if ownership is still retained.

Business transfers as role transitions – the exit from and entry into roles

This paper views business transfers as transitions of roles. Generally, role transition refers to "the psychological, and (if relevant) physical movements between roles, including disengagement from one role (role exit) and engagement in another role (role entry)" (Ashforth, 2001:3). There are different types of role transitions, both with relevance to the understanding of business transfers.

Inter-role transitions deals with the individual's movements between roles. If these shifts take place between simultaneously held roles, what is at stake is micro role transition. Such movements tend to take place frequently, as for instance the shift between home and work roles. One of the challenges of family firms (discussed above) is that "business" and "home" is often not separate entities, meaning that family and professional roles are mixed all the time. For individual family members it is therefore often challenging to know in what role they speak to each other.

A contrasting inter-role transition is a macro role transition, i.e. the infrequent movement between sequentially held roles. Examples of this are promotion, retirement, employment, or as in the case of succession, the exit from the role as CEO to a new role. During times of succession both senior and next generation are facing challenges of role exit and entrance – yet in partly different ways.

<u>Role exit – a challenge for the senior generation</u>

As defined, role exit and role entry are the carrying constituencies of role transition. Role exit refers to "the psychological, and (if necessary physical) disengagement from a role " (Ashforth, 2001:3). The disengagement makes role transition inherently difficult, especially in cases of role identification, i.e. when an individual himself in terms of the role.

As described above, this is often the case with the role as CEO. To exit the role as CEO is therefore a huge challenge – even if ownership is retained. "Letting go" of the business is frequently described as the biggest challenges in the life of an owner-manger. When someone identifies the self as a certain kind of person through the role, the likely implication is that leaving the role is very difficult. In this case "to switch roles is to switch social identities" (Ashforth, 2001:27). Someone identifying with a role is constantly seeking opportunities to enact it, and is prone to integrate that role with his or her other roles. In some cases, role identification might imply a loss of an independent sense of self. Individuals identifying strongly and exclusively with a particular role might be devastated if forced to exit the role, as they have no alternative identities to fall back on. To exit the role as CEO can therefore imply an identity crises - "who am I when I am not the CEO"? This deserves to be taken seriously – or else it could ruin the whole transfer process. To exit the role as CEO is a mental and emotional process of maturity that starts long before the actual role shift. It takes careful preparation to exit a role with meanings extending far beyond making a living.

A large part of the succession literature focuses on the resistance of the founder-entrepreneur to passing the business on to the next generation. Related to this problem is the tendency of founder-entrepreneurs to hang on to their creations even when they formally have passed the baton (Handler 1994, Dyer 1986, Kets de Vries 1986, Schein 1985). Having devoted most of their time and energy to the business, founders are likely to be emotionally very attached to them.

Gersick et al (1997) point out that the exit from the family business is a big change and challenge in the life of a family member whose authority and identity over the years has been derived from being a manager of the business. Thus, succession might be resisted out of fear for the losing of positions, not only in the business, but also in the family. Other factors that might promote resistance of succession are the lack of interests besides the business as well as fear of ageing, retirement, and death (Handler 1994).

Although difficult, it is possible to take on a new role identity. This is enhanced by "awareness of one's abilities, values and interests" (Ashforth, 2001:125). Having exited a highly valued role it is important to find new roles in which to express one's identity, abilities, values and interest.

Exiting the role as CEO is an emotional process, and it is vital for success that the owner acknowledges his or her feelings and take them seriously in order for a successful role transition. If this is not done properly there is an obvious risk that the senior manager cannot in practice leave his CEO duties and psychologically disengage from the role, even when the role formally has been handed over to the next generation. This means that the role has not been completely exited – and so it is impossible for another person to completely enter the role.

<u>Intra-role transition: a further challenge for the senior generation</u>

Exiting the role as CEO while remaining owner also implies the challenge of intra role transition with respect to the owner role. Intra-role transition refers to an individual's change in orientation towards a role already held. As long as the roles as owner and CEO is occupied by one and the same person the role as CEO tends to be in focus, with only little attention paid to the role as owner. When the role as CEO is exited the role as owner has, however, to be activated, in order for the owner not to loose insight in and control over the business. This raises the question: what does an owner do? What are the responsibilities of an owner? How does one exert influence and keep control of the business as "solely" owner? As previously discussed, if the requirements of the role are not clear and the role occupant is not sure of how to enact the role this is likely to lead to frustration and to an unwillingness to enact the role. The ability to answer the above questions and to make a job description for the owner's duties is vital for the successful intra-role transition of the owner role.

<u>Role entry – a challenge for both senior and next generation</u>

The other side of the role transition continuum is role entry, i.e. "the psychological engagement in a new role" (Ashforth, 2001:3). This is the challenge facing both senior and junior generation. Only if the senior generation finds new roles to enter, he or she will be able to not only formally, but also psychologically, exit the role as CEO. And only then will it be possible for the next generation to fully enter the role as CEO.

The senior generation

For the roles transition to be complete, i.e. for the senior person to exit the role as CEO her or she has to find other roles that will not only fill the owner's time, but – more importantly will also meet the needs of identity, meaning, belonging and control.
Especially if the senior generation intends to continue working in the business on a daily basis it is vital that his or her new role is made absolutely clear. Moreover, the duties of this new role must not overlap with the role as CEO. As discussed, role exit is difficult as it violates deeply held human needs. If there is any overlap between the senior generations new operational role and the role as CEO it will be all to easy for the senior generation to "glide back" into the role as CEO. If this happens the result is that two persons are simultaneously trying to enact the role as CEO – even if only one of them is formally authorised to do so. Without a crystal clear job description – with absolutely no overlapping areas of responsibility – for the senior generation's new role in the business, the risk of failure in the transition of the CEO role is very high.

The next generation
With respect to the above discussion, when absolute requirement for the successful entrance of the next generation into the role as CEO is the senior's successful exit from the same role. The entrance into the role as CEO has, however, also other challenges for the next generation, that very with a number of attributes. Generally it is easier for an individual to enter a new role if the role is socially desirable, and the entry is voluntary, reversible, and predictable.

For the family firm is might be wise to pay extra attention to these attributes, and to have an open discussion about them in the family. With respect to the take over being a *voluntary* act there might in family firms exist – more or less outspoken – expectation that the children (the next generation) should take over the role as CEO from the senior generation. Hence, the takeover might not be perceived as something based in the next generation's free will. If the take over is not voluntary one can expect that the take over will be done with some resistance on part of the next generation, which might impede the psychological entry into the role (even if there is a formal takeover). It might also be the case that someone from the next generation decides to take over as CEO because he or she thinks this is expected by the parents, without actually knowing that this is the case. Moreover, one of the things that seems to make the entry into the role as CEO - and even more so into the role as owner – difficult for the next generation is the feeling that this decision is a decision for lifetime. If they join the business, as CEO and/or owner this decision would not be *reversible*, as this would mean letting the family down. And so they feel reluctant towards taking over, as they might not want to – at perhaps a rather young age - close the doors to other possibilities in life.

Finally, many children in family firms face a situation where the parent/CEO state he or she will in the future leave the role as CEO the next generation, without specifying when this will happen. Not being able to *predict* when the role transition will occur it is not possible for the next generation to prepare for the role as CEO in an appropriate way. And if time goes by and nothing happens, the next generation might eventually loose the commitment and interest in entering the role as CEO.

A next generation family member taking over the role as CEO faces also other challenges. The complex role relationships in the family business tend to make the transition of the role a CEO to the next generation especially demanding. One reason for this is that "child" taking over runs the risk of always being compared to the parent. Whatever he or she does in the role as CEO this will be evaluated in the light of how the parent should have handled the matter. In literature on family business, this is frequently conceptualised as the child being in the shadow of the founder. When this is the case " the founder's image as a hero, genius or saint may so permeat the business that the successor must struggle to make his or her own mark" (Aronoff and Ward, 1992:50).

It is however, exactly by making his or her own mark that the next generation can make the way out of the shadow of the previous generation. As long as the child is trying to "copy" the parent, this will prevent him or her from psychologically engage in the role as CEO. Without a psychological engagement, the next "child" will not identify with the role and thereby not feel comfortable enacting it. In turn, this means the role will not be enacted with self-reliance and so the individual will not be able to release his or her full potential in the role. Not only will this be a disadvantage to the child him- or herself, but it will also negatively impact the organisation.

It is therefore important that next generation from the start works with personalising the CEO role. In the language or role theory a person’s identity does only shift in favour of a role when the person is able to navigate the role in a personal manner. One means of this is role innovation, i.e. the role entrant does not only “take over” the role but form the role in accordance with his or her own personality.

“To role innovate…is to personalise or individualise the way in a role is enacted to suit ones judgements and idosyncracies… personalisation enables one to put their stamp on the role (Harré, 1983). – making it as theirs – so as to express values personal identities. As such, role innovation conveys one’s uniquness both to oneself and to members of one’s role set differenting one from other role occupants and predecessors. Thus, role innovation may address the identity motive of self-distinctiveness, self-expression and self-continuity…” (Ashforth, 2001:195).

Role innovation can vary significantly in depth and scope, ranging from minor and ouvert refinements of organisational aspects, to pervasive changes affecting the overall direction of the company. Earlier research has for instance illustrated how role innovation might play an important part in the strategic development of family businesses over time (Hall, 2003).

To find ways to innovate the role it might be helpful to gain experience outside of the family business before taking over the role as CEO. The source of this experience might come from education or from working in other companies. What is important is that the one entering the role as CEO contributes with something unique to the role, something that differentiates him or her from the predecessor. Not only does this bring self-confidence to the role entrant, but it will also make it more difficult for others to make direct comparisons between the role entrant and the previous CEO. Hence, there is less risk for the role entrant to end up in the shadow the founder.

Concluding remarks

This paper has discussed business transfers from the perspective of role transition.
In doing so it has highlighted the human side of transfer. Failure to take the human side into consideration often leads to failure of the transfer process. Transfers are not just about financial, strategic, and juridical issues. As gets obvious when taking the perspective or role it is very much about individuals and their basic, human, needs.

A role perspective on business transfer also highlights the inter-active nature of transfers. Role transitions are composed of the exit and entry into roles. Here the role of CEO has been in focus as the transition of this role from one individual to another is a central part of the transition process. The successful entry in the role as CEO of the next generation depends on the senior generation’s successful exit from that very role. To a large extent the ability to exit and enter roles depend on the individuals themselves, on their motives, visions and careful preparations.

But the success of the transition of the role as CEO in a family business it depends on the people close to the ones exiting and entering the role. To facilitate the entrance of a next generation family member in the role as CEO it is therefore important with support from other family members. A child taking over as CEO is not only replacing the former leader but also a parent. This makes the role entrant more complex – especially if the parent experience difficulties of letting go, and the child replacing him needs to tell the father not to interfere while at the same time probably caring about the father and not wanting to hurt him. This could for instance be the situation with a daughter taking over after a father with difficulties exiting the role because of strong role identification with the role as CEO. If the father cannot exit the role, the daughter is faced with a situation in which she, on the one hand, must defend her position in the role she has entered by clearly acting out the tasks related to it – among these telling the father she is the one in charge – and at the same time provide understanding for his lost identity. As discussed earlier, this renders a difficult role conflict between the task role as CEO and the socio-emotional role as child. In this situation it is vital that the rest of the family is supporting the family member by emphasising that a role transition has taken place so that the child feels he or she has the family's support in the role as CEO. It is likewise vital that the father gets the support he needs in the process of exiting the CEO role.

It is however not only the family that has to show support in order for the transition to go smoothly. Also the organisation – the executive board, the management team and the employees – have to acknowledge the transition in order to facilitate it. Once the occupant of the CEO role has changed from parent to child the rest of the organisation have act in accordance with this. This means for instance not to ask the senior generation about things that clearly is up to the new CEO to decide. Hence, a successful role transition is dependent on awareness and commitment from a large number of individuals. A role transition is completed only when it is accepted by the surrounding community and when both senior and junior generation feel comfortable enough in their new roles to enact them without hesitation.

References:

For references please e-mail the author