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Legitimacy Challenges in Terms of Succession Planning and Internationalization in Family Businesses

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Abstract: Venture legitimacy refers to the generalised presumption or perception that a business entity's distinct procedures are proper and convenient or desirable within specific socially constructed systems of values and opinions. Entrepreneurial legitimacy is obtained by conforming to distinct normative, cognitive, and structural norms within entrepreneurship and communicating adherence to these norms. This concept has been widely used in entrepreneurship, including family businesses (FBs), which is the focus of this paper.

Keywords: Family Business, Succession Planning, Legitimacy Challenges, Expanding Internationally

I. INTRODUCTION

A FB is a commercial company where decisions are taken by family members of different ages who are associated by blood, marriage or adoption [1-4]. Many of these companies face periods of successions, which are referred to as transitions in a business's management and ownership [5]. Some companies succeed in transitioning, and some do not. In fact, one of the most widely reported challenges facing a FB is achieving a successful transition, following successful planning. Another challenge, whether for first- or second-generation members of the family, is expanding the business internationally. In this paper, entrepreneurial legitimacy and venture legitimation of FBs is discussed both in the context of succession planning and internationalization, with examples from different regions and policy environments within which FBs may or may not have been allowed to prosper.

II. SUCCESSION PLANNING

Legitimacy Challenges

When FBs have to pass from one generation to another, they encounter key legitimacy challenges during the handover process. Deloitte (2015) reports that, in FBs, an absence of relevant succession planning creates a serious threat for the business by inviting disruption, conflict and uncertainty, which in turn endangers the firm's competitiveness [6]. This is further supported by Gilding et al. (2015) who demonstrated that one of the greatest challenges impeding legitimacy in FB succession is identifying a competent successor [7]. Berent-Braun and Uhlaner (2012) further believed that the process of preparing a successor with experience and adequate support from stakeholders and the board of directors is, at times, an uphill task [8]. In fact, research by PwC (2016) revealed that 43% of FBs lacked a succession plan and only 12% could beyond the second generation [9].

Furthermore, first-generation members may take sides, which could negatively affect the overall performance of the business [10]. For example, they might be biased towards a family member who owns a majority of shares within the company. This may bring about distrust among employees and investors where company shares act as a factor in the legitimacy debate. Another debatable criterion

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that is commonly used to select legitimate successors is age/seniority [11]. This selection process favours strong nepotism without focusing on objective criteria solely based on work performance. While these challenges may cause conflicts amongst first-generation members, they may also cause clashes across both generations. Examples and implications of these challenges are discussed next.

Policies, possible interventions and potential tactics

At a broader level, achieving entrepreneurial legitimacy in the succession debate may be affected by the policy environment or culture within which a business operates [12]. In Iran, for instance, attribute a successful FB transition to the characteristics of the family itself, noting that an increased trust amongst individuals and the family's commitment to the business may lead to its successful succession [13]. This trust, or 'unconditional support', Coville (2020) argues, has supported an Iranian FB despite its existence in a 'low-trust' environment [14].

Home to an Islamic culture, Iran's support for FBs - as is the case in other Islamic nations such as Saudi Arabia - is grounded in the roots of Islam itself, where familial succession is normally observed in ownership and leadership [15]. This may render its application in other areas, such as family-owned businesses, naturally legitimate. To ensure a legitimate (and successful) transition of power, another Islamic State, United Arab Emirates, has enacted its own Family Business Law in August 2020 to regulate and facilitate a smooth transition of family wealth across a number of potential successors down to the family's fourth generation [16].

These country-specific examples draw upon similarities and differences with nations from other regions in the world. For instance, similar to Islamic nations, East Asian countries, China in particular, have also historically witnessed family succession in political leadership and power transitions [17]. However, China's one-child policy alleviates the need for UAE-like FB regulation, as the family's successor is naturally defined (assuming succession extends to business ownership). Put differently, in China, the fact that children are in sole charge of these assets may legitimise them succeeding their predecessors as managers and/or owners of the business [18].

However, in practice, while FBs contribute to around 60% of China's GDP, there is evidence that around 80% of second-generation members are unwilling to take over the FBs, attributed to differences in generational values and a preference for engaging in start-ups instead [19]. In addressing this, the Chinese Government had enacted a set of policies, namely the Small and Medium Enterprise (SME) Promotion Law in 2003, which facilitates access of SMEs (mostly family-controlled) to financial resources including loan guarantees [20]. The Chinese Government also offers support in the form of business specialisation, consultation and training to managers, which would enhance their professional view (and, thus, legitimacy) in the public eye. However, as the government's support to SMEs is not directly aimed at FBs specifically, it is recommended that, considering the contribution of FBs to the national economy, the Chinese Government ratifies laws that directly target FB issues.

One mechanism, which can complement such governmental support, and which can be replicable across other countries, is a governance entity run by the business-owning family itself. In Brazil, for example, a country in which more than 90% of businesses are family-owned, a special corporate governance vehicle, a 'family council', is created to ensure successful succession planning in FBs [21]. This council oversees and manages family affairs affecting the business rather than managing the business itself. However, despite the apparent relevance of a family council only around 30% of organisations have one [22].

In this, first-generation members could apply effective and dynamic governance to facilitate the succession process, initially by distinguishing between family, ownership and management within the

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FB's structure [23]. Following Brazil's example, FBs could create a family council to handle family issues whose meetings are separate from those of the shareholders and board of directors. This represents a sustainable governance system that clarifies the functions and roles of family, ownership and management to avoid overlap between them and ensure the integrity of the succession process amongst company members. An example of this model is provided in Figure 1.

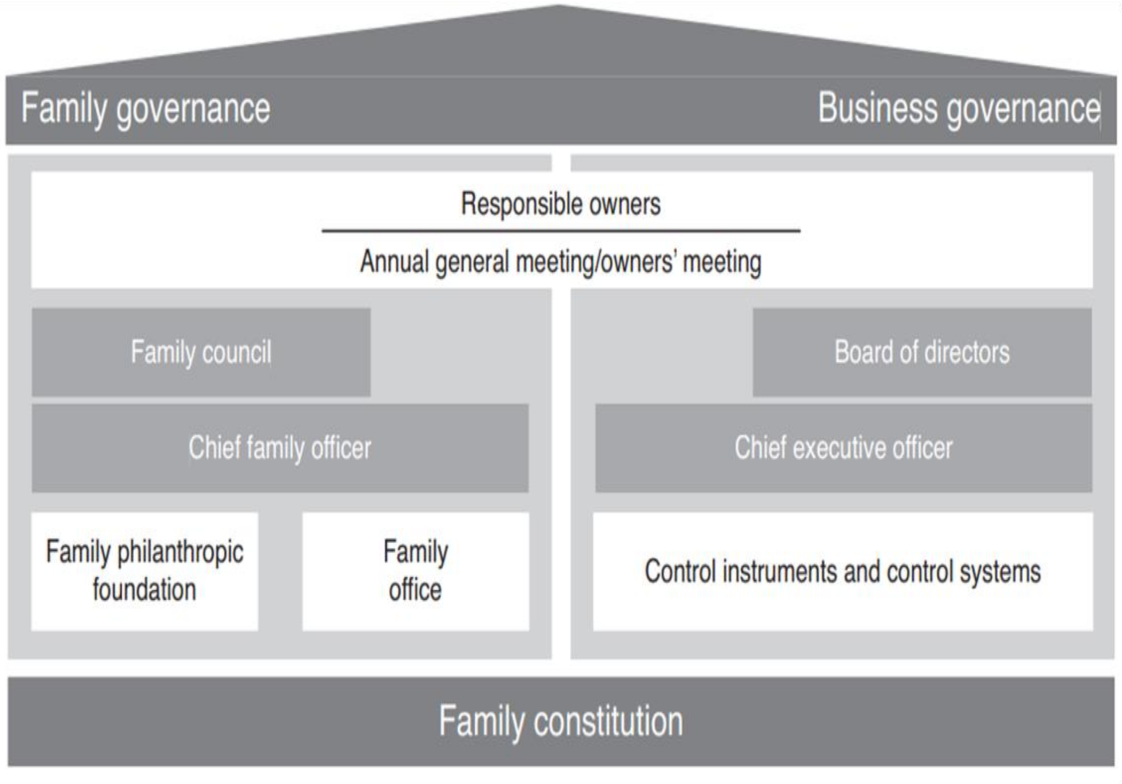

Figure 1. A family business governance model. Source: Koeberle-Schmid et al. (2014).

For second generations, legitimacy can be achieved by engaging in credibility-enhancing actions. Some of these actions Zott and Huy (2007) acknowledged are 'symbolic actions', which convey skill [24], knowledge and organisational achievement as a means of drawing attention to their roles and enhancing their entrepreneurial credibility. For example, seeking higher education and qualifications in their business's specialisation have proven to have a positive impact on a successor's credibility in the workplace [25]. This can be coupled with gaining experience within the FBs to learn the intricacies of managing the business as a successor [26]. Successors should also embrace an entrepreneurial thinking by bridging the gap between potentially outdated management strategies and the styles of their predecessors and the business's need to continue adapting to an increasingly evolving marketplace and a different way of doing business (e.g., digitalisation). Moreover, 'visual symbols', such as setting, props, dress and expressiveness could facilitate a path of potential successors by creating an inspiring personal identity for them [27]. Also, if used appropriately, 'storytelling' and narratives could be effective tools in creating competitive advantage for successors to gain legitimacy in FBs [28]. The selected examples attest to the fact that depending on the policy environment governing the FBs, interventions are needed not only at the corporate level to maintain smooth day-to-day business affairs between family members but also at higher levels with enforceable laws that ensure conflict among family members does not arise.

III. EXPANDING INTERNATIONALLY

Legitimacy Challenges

It is clear that in the absence of a clear and applicable transition plan in FBs, some may be vulnerable to a storm of challenges, especially for successors. One such challenge is international expansion [29], which can positively (e.g., [29]) or negatively [30] affect FBs. A lesser degree of debate, however, exists regarding the challenges facing FBs in their quest for internationalisation; these include resource acquisition and resource diversity, knowledge of international markets and adaptation of existing business models to those markets.

In incremental internationalisation theory FBs are expected to gradually enter geographically close markets that are less 'psychologically distant' [31] This is because these markets may be more naturally familiar with the business and so more receptive to its market access, which may enhance its pragmatic legitimacy. In other instances, FBs may find it increasingly challenging to legitimise access to global markets (for example due to fierce competition from competitors in those markets some of which may be FBs themselves) [32]. Moreover, FBs managers who seek to 'go international' may be seen as non-experts who lack international culture knowledge and who have been accustomed to a defined local context that may not be present elsewhere (i.e., lacking cognitive and regulatory legitimacy) [33]. These legitimacy challenges and how they are addressed collectively define if - and how - a FB can be successful in foreign markets, which is described next.

Policies, possible interventions and potential tactics

While the internationalisation of a FB has been either driven by the business's need to explore global markets (e.g., due to local market saturation) or out of the voluntary desire of the owners, this has been largely shaped by existing policies (supportive or otherwise). The impact of policies on the legitimacy of FB's internalisation is discussed here from the viewpoint of two policy environments, that of the FB's home and host countries.

On the one hand, both home and host countries may be more receptive to FBs that may be coming from/moving into neighbouring countries if they share their cultural and institutional values [34]. For example, in 2010, the Gulf Cooperation Council (GCC) passed a set of laws that allowed Gulf companies to expand into other GCC States and be treated equally as local companies [35]. Complementing this, one Gulf State, UAE, even allowed full business ownership by non-GCC nationals, including foreign FBs (under the 'UAE Companies Law') [36]. This was aimed at increasing the competitiveness between local and international firms and the legitimacy of FBs in neighbouring markets.

On the other hand, this is in stark contrast to the lack of support provided to FBs operating across European Union borders. Apart from the inclusion of mentoring for FB succession processes for FB as a best practice by the Directorate-General for Enterprise and Industry [37], the term 'family business' is all but absent from the European Union's 2020 strategy [38]. In the UK context specifically, this is further exacerbated by the trade ramifications of exiting the EU, which will only serve to limit market access of foreign firms to the UK market.

Home and host policy environments also affect FBs seeking expansion into more psychologically distant markets. In Rwanda, for example, the government discourages the internationalisation of local FBs by freezing the assets of a FB if the owner resides abroad (under the 39/2015 law) [39]. On the contrary, in Western countries such as the US and Australia governments encourage FBs to engage in export businesses. In the US, the federal government supports exporting FBs by making a National

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Trade Data Bank (NTDB) available to them, which offers a comprehensive information database of overseas markets [40]. In Australia, the government similarly encourages local businesses (around two-thirds of which are family-owned) to engage in export markets by offering Export Market Development Grants (EMDG) to provide financial assistance to aspiring exporters [41].

It has also become common practice for FB seeking international venturing to form partnerships with one or more local businesses in the corresponding foreign market. This can offer technological and informational resources, distribution channels and/or marketing expertise [42]. For example, the KSA Vision 2030 has established large-scale projects, roles and procedures that strongly encourage capital and global companies to invest and create partnerships with Saudi companies and government such as the 'Neom' and 'The Line city' [43]. Furthermore, the likelihood of such partnerships succeeding may be enhanced if they are formed from two family-owned businesses, as both firms may share ethnic values and objectives. However, there is evidence that FBs are less likely to form joint ventures internationally than non-FBs [44], The role of the host country in promoting such partnerships is thus key.

From the home country's perspective, there are arguments that the political ideology of the FB home country is important in legitimising the internalisation of the FB. Using an example from Chile, shows that FBs are likely to perceive conservative government orientations as more protective and supportive of FBs in their international ventures [45]; however, our earlier Rwandan example suggests otherwise, making the case for governments supporting internalisation of FBs highly context- and region-specific. Regardless of this debate, what is certain is that government policies of home and target countries may make or break the case for a FB going international and should arguably have been explicitly included as one of the main factors, which [46] listed as most important in the decision of a FB to go international.

Considering the above, an important strategy that could be used to gain pragmatic legitimacy may be to 'conform' to the host country's environment by mimicking penetration strategies of already-established local businesses [47]. However, as some FBs are unable or unwilling to conform to certain international environments, they could 'select' an environment that can embrace their business model - whether traditional or innovative - such as Silicon Valley [48]. Here, 'One Workplace' serves as an example of a FB which gained legitimacy by moving to Silicon Valley [49].

Another strategy that has been proven to facilitate market entry of foreign FBs is to 'inform' local stakeholders through communication strategies. [50] provides an example of this, of eight Greek FBs which have expanded internationally by using social media platforms to integrate quickly into foreign markets. Failing all these strategies or if boasting a radically innovative business model, FBs could alternatively 'create' their own business environment – as challenging and resource-demanding as this may be. A prime example is that of Amazon, for which there was no established business model for an online retailer. Amazon's business model is now adopted by many stores as a legitimate model to access new markets.

In short, FBs are at liberty to choose an appropriate strategy, based on existing policy contexts (home and abroad) and on the nature (and needs) of the business itself, where it can also potentially combine strategies (e.g., conforming and informing) to enhance the chance of successful international market penetration.

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IV. CONCLUSION

This work did not come without limitations. It has used examples, which convey the importance and implications of home and foreign policy on the legitimacy – pragmatic, regulatory and/or cognitive – of FBs in facing two of their most serious challenges i.e., achieving smooth transitions in business succession and international expansion. The research shows that case studies as presented in the literature are highly context-dependent and the family business's success or lack of in facing these challenges will almost certainly be affected by a combination of cultural, economic and political factors. From an overarching viewpoint, these factors also interplay at two different levels: corporate vs country and first vs second generations. It is recommended that further research explicitly incorporates the impact of home and foreign policies on the internationalisation of FBs specifically, as it has done for other companies in general.

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