

Intergenerational Followership of Small and Medium Enterprises (SMEs)

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ABSTRACT: The contemporary business and management literature offers an ample account of leadership theory and practice guidance. Future corporate employees are trained to climb up the hierarchy to obtain the aspirational goal of leadership. Leadership theory in the Western world appears to focus on large corporations and multi-national businesses. Most recently, literature emerged that points at drawing attention to small-medium enterprises (SMEs), which are actually the majority of businesses, especially dominating in smaller more fractionate market economics, such as the European continent. SMEs are also the most predominant form of business in developing and transition economies. This article draws attention to the importance of shedding light on SMEs in the overall business, economics and management literature. Currently there is also literature emerging on the importance of attention to followership in the wealth of insights already derived for leadership management and practice. Strategic followership aids decision-makers decide wisely how to follow, whom to follow and when to follow. This paper will address followership in SMEs. Lastly, this paper also contributes by drawing attention to an overlooked feature of SMEs in mainly being family firms. The SMEs nature of family business will be investigated from an intergenerational aspect in order to derive strategic followership advice with respect for intergenerational family influences. The paper closes with an outlook of future research in the field of SME strategic followership with respect for intergenerational family business characteristics.

KEYWORDS: Behavioral Economics, Behavioral Insights, Development, Economics, Family firms, Followership, Human Resources Management, Intergenerational Dynamics, Intergenerational Leadership, International Development, Leadership, Management, Organizational Behavior, Small-Medium Enterprises, SMEs, Strategy, Strategic followership, Transition economies

Introduction

The contemporary business, management and strategy focuses on leadership. The corporate sector literature is also primarily addressing multi-nationals and large corporations. In reality, most corporations are small-medium enterprises (SMEs). The vast majority of SMEs are family businesses that get passed down from one generation to the next. SMEs often play important parts in the local communities or are essential keys in the supply chain of larger multi-nations. SMEs are also the important economic driver of developing and transition economies around the globe.

This article sets out to study followership in SMEs in contrast to the wealth of knowledge derived on leaders of multi-nations. The particular aspect of family SMEs and intergenerational followership dynamics are highlighted to address a key essential of successful SMEs that has largely been ignored by the contemporary business and management literature.

The paper gives advice to study particular aspects of intergenerational followership as a strategy in order to enhance the pass-over success of family businesses. Intergenerational care is attributed to hold two dimensions of social responsibility and future-orientation. Understanding the dynamics of social responsibility and future-orientation will help derive key insights for family-run SMEs vital intergenerational knowledge transfer.

In empirical work, joint decision-making in directly comparing two viewpoints concurrently has proven to be eliciting intergenerationally more harmonious choice patterns. This decision-making peculiarity may benefit family-run SMEs implicitly. Looking out for the full representation of old and young decision-makers throughout all hierarchical layers of

family businesses and training the upcoming generation on the job from an early age on is practical advice derived from this joint decision-making advantage.

An ongoing dialogue between generations and a recognition of the challenges of the mix of family and corporate endeavors may help foster a climate of understanding and openness to discuss problems and solve them together in the family compound. Having healthy and vital intergenerational dynamics on a constant basis promises to foster a climate of open sharing of successes but also concerns to be surmounted together in the family.

Lastly, the discussion concludes with future research avenues in the intergenerational followership domain with particular attention to SMEs.

Small-medium enterprise (SMEs) family businesses

In the business world, most corporations are small-medium enterprises (SMEs). In 2022, 99.9 percent of corporations in the United States and the United Kingdom are estimated to be SMEs (Main & Bottorff 2022; Prowle & Barnes forthcoming).

Most of these SMEs are family businesses or family firms (Gomez-Mejía, Nuñez-Nickel & Gutierrez 2001). Family business are oftentimes SMEs in which two or more family members own 15% or more of the stock, family members are employed in the business, and the family intends to retain control of the business in the future (Allioui 2023a; Schulze 2001). In family business, family members hold onto ownership, participate in governance and management decisions through strategic direction, direct family involvement in day-to-day operations, and/or maintain voting control (Allioui 2023a; Astrachan 2002). Family business feature ownership control of the family, strategic management decisions within the family compound, concern for family possession and the hope to continue the business and transmit it successfully to the next generation (Allioui 2023a).

Family businesses make up the majority of corporations in the Western world. Between 80 and 95 or 98 percent of businesses in the United States and Latin America and more than 80 percent of businesses in Europe and Asia are believed to be owned and managed by families (Allioui 2023a). Family businesses are believed to make up more than half of the Gross Domestic Product (GDP) of the advanced economies (Allioui 2023a).

The vast majority of SMEs are family businesses that get passed down from one generation to the next. SMEs often play important parts in the local communities or are essential keys in the supply chain of the oftentimes studied larger multi-nations. SMEs are also the important economic driver of developing and transition economies around the globe.

It is thus striking that about 67% of family-run businesses do not survive beyond the founding generation under the control of the same owning family, and only about 12% make it to the third generation (Allioui 2023a). Problems attributed to SMEs concern productivity, lack of professional leadership and financial illiteracy. The SME culture is often influenced by family ownership, which brings along problems of interfamily passages of power and non-merit-based leadership control. The intergenerational dynamics of family-run SMEs is yet hardly studied or subject to scientific investigation.

In the international arena, SMEs are vital pillars of international community development. To this day, however, SMEs are largely unstudied as the standard Western leadership literature is primarily focused on leadership in multi-national organizations. Strategic followership in SMEs and intergenerational dynamics of family-owned businesses is – until now – scarce in the management literature.

Studying SMEs with particular attention to intergenerational aspects of power transfers during pass-over of the business from one generation to the next could help build resilience and sustainability throughout the entire economy for the large amount of family businesses in the overall economy. Not only effective leadership but also strategic followership is required to make family-owned business thrive long-term and conserve knowledge transfer from one

generation to the next. Especially in cultures and contexts where education is scarce and training happens mostly on the job, positive essentials for strategic followership and efficient passing on information within the family compound can be key in international development. Contingency strategies for SMEs to thrive – if families lack sufficient followership in their own family – should become subject to scrutiny to advance resilience finance and sustainable economic persistence in vulnerable cultures and marginalized communities.

In the recruitment and development of human capital, information on the family dynamics and intergenerational communication within the family compound are missing in the SME context literature. Family businesses are believed to possess advantages based on the interaction and involvement of a family in business (Allioui 2023a). Altruism on agency relationships (shareholder-management relationships) are considered to be favorable in family businesses (Allioui 2023a). The interfamily ties but also the active involvement of family members may be crucial influence factors for family-run businesses (Allioui 2023a).

The particular transfer of power of one generation to the next generation of family business owner dynasties is hardly studied in management science. The selection of inheritance within the family but also the next generation's influence on the business decisions being intertwined with personal accounts within the familial compound are hardly subject to scrutiny. The formal and informal transfer of knowledge and culture of leadership and followership within the SME family business context are hardly studied. Studying success factors of inter-familial implicit information transfer that leads to successful SMEs outperform non-family counterparts but also obstacles with non-merit-based nepotism constraints could become subject of a critical analysis for the SME context to strengthen the vitality and sustainability of SMEs, especially in international development (Allioui 2023a).

Intergenerational leadership and followership of SMEs family businesses

SME family businesses have a distinct character and culture, which features advantages but also drawbacks compared to non-family run multinational organizations.

Advantages of family run SMEs

Family-run SMEs offer the personal involvement of family members and a familial trust in the support of family members in leadership and management relations. Family cohesion allows for building a benevolent culture of trust and stability.

“The natural advantage of family businesses” is believed to lie in “natural governance” due to the melting together of family values and entrepreneurial culture (McCracken 2020). Success, reputation and personal well-being of the family depending on the company appears to be a vital driver of performance (Gomez-Mejia et al. 2007).

Crime and theft may be crowded out in the environment of family trust and personal reputation in the long-term endeavor of the entire family. The family holding capital and voting rights under control makes family-run businesses more prone to concerted action and personally-deliberated thoughtful market moves.

The socio-emotional attachment and identification of family members with the higher causes of the corporation as a family endeavor spanning over generations offer an additional layer of protection and motivation to any family-run enterprise (Allioui 2023b; Micelotta & Raynard 2011).

The transfer of power within families likely features longer learning-by-doing and training-on-the-job handover periods. Family-run corporations tend to have slower and less groundbreaking transfer processes compared to corporations that face a hostile takeover or merger and acquisition process (McCracken 2020).

In terms of finance, family businesses are described in multiple studies as rather stable, long-term endeavors (Allioui 2023b; Allouche & Amann 1997; Calvi-Reveyron 2000;

Charreaux 1991; Gallo & Vilaseca 1996; Hirigoyen 1984; Mahéroult 1998). Financially, family businesses are characterized by comparatively low debt levels as families tend to avoid financial debt risks (Gallo et al. 2004).

Family businesses not only have a personal financial long-term stake (Anderson, Mansi & Reeb 2003). Family-run corporations are assumed to have a longer-term horizon over generations (Gomez-Mejia, Haynes, Núñez-Nickel, Jacobson & Moyano-Fuentes 2007)

Drawbacks of family run SMEs

Family structures, at the same time, bring along a constrained pool of resources and less likely merit-based appointment of family members in leadership and management positions (Allioui 2023a). The concentration of power in one family and transfer degrees of freedom losses curbs diversification potential. The next generation may simply lack the enthusiasm and work ethics of the previous generation that brought up the business. In fact, the reality shows that only about 12% of family-run corporations stay in the family up to the third generation (Allioui 2023a, b; Xi, Kraus, Filser & Kellermanns 2015).

Family-run businesses may face multiple layers of overlapping interests ranging from corporate success, family dynamics and ownership performance comparisons of the different family members (Allioui 2023a). Family-run businesses require management of firm relations and family relations concurrently, which brings along the risk of a clash of managerial innovation and family traditions (Allioui 2023a, b). Respect for family values and cultural tradition seems to be pitted against agile flexibility of the young generation to rebel against the old (Allioui 2023b). The following generation tends to be more risk averse than previous ones (Allioui 2023b). The extra layer of family history and protection of causes over generations may become a socio-emotional burden when corporations are tested during crises to be resilient and adaptable to changing trends.

From an intergenerational perspective, children always have to live up to the parental shadow expectations and family-run businesses are therefore doomed to be “locked in the past” (Allioui 2023a, p. 29; Miller et al. 2003). Children tend to rebel against the parental career, as the saying goes that children of artists want to become bankers and children of bankers want to become artists. If this is somewhat the case and true, there is the risk of children explicitly or implicitly rebelling against their parents’ values and thereby run into the problem of destroying or neglecting the wisdom of their parents that was essential for the success of the family-run business (Allioui 2023a; Miller et al. 2003).

The transfer of power within families may be tainted with familial traumas and life-long competitive situations among siblings, which may play out in business structures. The passing on of the business from one family generation to the next can thereby be influenced by family rivalries and power struggles that have built up from early childhood on (Allioui 2023a; Miller, Steiner & Le-Breton-Miller 2003).

Intergenerational SMEs family business management

Research about intergenerational insights may offer helpful guidance to navigate family-run SMEs. Intergenerational care stems from social responsibility and future-orientation. Fostering a climate of social responsibility and future-orientation in family-run SMEs may benefit intergenerational knowledge transfer.

In empirical work, joint decision-making has proven to be eliciting intergenerationally more harmonious choice patterns. The joint decision-making technique benefits from placing two options next to each other or evaluating options through a spectrum of information derived from different viewpoints. This decision-making peculiarity may benefit family-run SMEs implicitly. Looking out for the full representation of old and young decision-makers throughout all hierarchical layers of family businesses and training the upcoming generation on the job

from an early age on, is practical advice derived from this joint decision-making advantage (Puaschunder & Schwarz 2012).

An ongoing dialogue between generations and a recognition of the challenges of the mix of family and corporate endeavors may help foster a climate of understanding and openness to discuss problems and solve them together in the family compound. Having healthy and vital intergenerational dynamics growing out of vital dialogue on a constant basis promises to foster a climate of open sharing of successes but also concerns to be surmounted together in the family. Lastly, an open dialogue about the preferences of the upcoming generation may prevent social misery of children being pressured to take over and continue the business of their parents. In the end, if the elder force the young to repeat their work, life rests in the past or would turn somewhat stagnantly going back.

Discussion

Future research avenues could first address the problem of leadership focus in the contemporary management and business literature. A recognition for the need to study followership could then be applied in the family-run SMEs context and the transfer of power between generations.

The corporate and management research community is also encouraged to form literature around SMEs with particular attention to family-run ones. The overall focus on large-scale multinationals could be complemented with a vital stream of insight on SMEs, which make up the majority of firms.

While research exists on the specificities of family business (Bloch, Kachaner & Stalk 2012; Carney 2005; Zahra, Hayton & Salvato 2004), in particular intergenerational dynamics and critical family events of passages of responsibility should become subject to further scrutiny. Alloui (2023b) raises the important question of the dilemma between maintaining traditions and the need for innovation implied in family business structures. Research on intergenerational equity of the past has more focused on global governance concerns and may now also turn an eye on the multitude of SMEs and their intergenerational aspects (Puaschunder 2017, 2018, 2019).

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