Succession and family business innovation: Case of machinery manufacturing sector in Ankara

İ. Semih Akçomak, Science and Technology Policy Studies, METU
Merve Gül Barut, MAKRO Management Development Consulting Ltd.
Çağrı Topal, Department of Business Administration, METU

Family businesses representing the oldest and most prevalent type of entities in the world are widely recognised as the driving force of socio-economic development. They account for 95% of all Turkish private sector enterprises (PWC Turkey, 2012), thus a true backbone of the Turkish economy. This paper looks at the interplay between two key events -succession and innovation- that are crucial for survival and growth by specifically digging in to the process of how hierarchical or patriarchal relationships between family members are reproduced in family firms in Turkey and how this process affects innovation activities.

Succession and innovation are important issues for sustainability of family businesses. While succession scholars mainly deal with the factors affecting the success of succession process (e.g. Cabrera-Suárez et al., 2001), innovation scholars have been mainly investigating factors affecting the innovation intensity of family firms (e.g. Chrisman and Patel, 2012). However there is no work to our knowledge that looks specifically on how intergenerational transfer of leadership affects innovation activity in family firms. This paper contributes to the literature by directly addressing this gap.

We use a novel qualitative methodology to investigate the role of succession on innovation in family firms. 11 family firms that operate in the machinery manufacturing sector in Ankara are selected using purposive sampling. Then we held semi-structured interviews with the predecessors (always the father in our case) and the successor (mostly the son) separately. This research design enabled us to compare and contrast the attitude of predecessors and successors towards innovation and more importantly how they value each other's contribution to family business because the family members had no contact during the interviews thus no chance to affect each other's opinions. The main story line of our findings can be summarized as below.

Leadership succession from the first to the second generation poses a challenge for a family firm as it indicates a reversal of roles between the predecessor or the family head, generally the founder father, and the successor, generally the eldest son and rarely the eldest daughter. Yet, in the Turkish firms, the succession occurs within the parameters set by the father and hence the father's ultimate authority is not actually challenged. In other words, the role reversal is reversed. The result is the reproduction of traditional hierarchical relationships as well as the institutional form of family business based on those relationships.

The parameters set by the father generally refer to the core competence developed during the leadership of the father and still being the main source of value for the firm. In the cases analyzed, this is the competence developed around the production function of the firm. The production is thus buffered from the external environment as much as possible as the source of family wealth and the control of the father over the firm. The commitment of the successor is also essential to keep the character of the firm as a family business and thus the successor is to be involved in the direction of the firm. The successor is provided the opportunity to make some changes in the areas not directly related to production but involve marketing and organizational innovation. While involving the second generation in the firm, this limited flexibility also contributes to the firm value and is actually encouraged by the father whose experience and skills are not sufficient in those areas but narrowly specialized to deal with the early survival challenges through a focus on production. Hence, the production function preserves its central role in the firm, which is complemented and reinforced by other functional improvements around production. The dominance of production leads also to the continuation of the dominance of the father who is most knowledgeable about production even though he is no longer the official head of the firm. The new knowledge brought and accumulated by the second generation in other functional areas is integrated in favor of production and helps reproduce the subordinate position of the successor even though the successor is officially the head of the firm.

This study demonstrates that how traditional hierarchical family relationships at the societal level are reproduced at the firm level in the context of Turkish family businesses with more or less standardized manufacturing products. Family businesses seem to be characterized by successive works of institutional maintenance (e.g., Lawrance et al. 2009), first by the father and next by the son. The study also indicates that despite their relatively organic and informal structures, family businesses may not be a source of radical innovations. Lack of resources is an important factor for lack of innovations in family firms. Yet, as this study demonstrates, the maintenance of hierarchical relationships restricts the scope of changes in family businesses. The changes that come with the second generation are characterized by functional modifications reproducing the dominance of the existing core function. Therefore, small business and family firms need to be distinguished in the Turkish context; while small businesses may be a source of innovation to the extent that they are not hierarchically organized, family firms may not. Still, this study should be complemented with others on family firms, whose clients might demand innovations in the product mix. That there is little demand for innovativeness from the customer side creates a firm ground for the father to resist potential attempts to transform or even modify production.

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İ. Semih Akçomak studied economics at the Middle East Technical University (METU) in Ankara, Turkey. After completing his PhD dissertation in 2009 at UNU-MERIT he worked at the Department of Economics, Maastricht University and Centraal Planbureau – Netherlands Bureau for Economic Policy Analysis. Currently he is an assistant professor at the Science and Technology Policy Studies, METU. His research has appeared in various outlets including the *Economic Journal*, *European Economic Review* and *Regional Science and Urban Economics*. As of 2014 he serves as a member of the board of management of the International Schumpeterian Society.

Merve Gül Barut studied at the Department of Business Administration in Hacettepe University in Ankara, Turkey. After graduation in 2011, she started MSc studies at Science and Technology Policy Studies, METU and completed in 2014 with a thesis on "The Impact of Succession on Family Business Innovation: A Case Study on Machinery Manufacturing Sector in Ankara". Currently she is working as researcher and consultant mainly dealing with EU funded transnational research and innovation projects in MAKRO Management Development Consulting Ltd. in Ankara.

Çağrı Topal is a researcher/instructor in the Department of Business Administration at METU in Ankara. He has an MS degree in sociology from METU and a PhD degree in organizational analysis from the University of Alberta in Canada. Among his research interests are risk construction processes and micro processes of institutionalization. He published in some organization-focused journals including *Tamara: Journal of Critical Postmodern Organization Science*, *Organization Studies*, and *Journal of Management and Organization*.