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The Managerial Vacuum of Business Succession in Family Businesses – An Evolutionary Angle on Revitalization

Keywords
Business Succession, Managerial Vacuum, Revitalization, Entrepreneurship Theory, Co-Evolutionary Theory, Path Dependency, SME, Family Business.

Abstract

Why does a managerial vacuum in case of inter-family business succession occur? Latest insights of entrepreneurship theory and path dependency are used to address this research question. Employing a co-evolutionary view, the managerial vacuum will be conceptualized from both the macro and micro level. Path dependency opens the perspective to a process-oriented interpretation of causes, effects, and managerial implications concerning a period of high uncertainty but at the same time of high importance for family businesses. First research propositions summarize and condense the findings and serve as a benchmark of ongoing research.

The Basic Problem

Any business succession changes the managerial structure of the family business involved considerably. The respective firms undergo a process of organizational change with an open end. In many cases business successions end up in struggles for organizational survival (García & Lopez 2003; Carney & Gedajlovic 2003). From an entrepreneurial perspective, however, business succession can also pave the way for revitalization by replacement of the former managing owners by new entrepreneurs. This opportunity should be considered by the

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whole personal network of the firm. It is argued that in research on business succession this aspect is relevant as well – but largely ignored.

This research paper states that every business succession involves a so-called *managerial vacuum*, i.e. a transition phase from the former owner(s) to the new one(s) with a state of under-managed processes (Handler 1994; Howorth et al. 2007). This managerial vacuum seems to depend to a large extent on (1) the degree of familiarity of the new entrepreneurs with the company involved and (2) the managerial skills available. However, due to incomplete information in connection with limited assets and skills this situation, basically, cannot be avoided. Problems in connection with this managerial vacuum might be manifold. In particular the temporary lack of orientation of the whole company and the conflicts due to different styles of management and different entrepreneurs clearly show that situations might get out of control and cause a severe crisis. The strategic renewal initiated by the new entrepreneurs, however, allow for taking the chances of revitalization.

Although this basic phenomenon is not completely new (Longenecker and Schoen 1978; Ward 1987; Stavrou 1999), it is still under-researched. The basic problem is that research typically focuses on the transition process itself and on the perspectives of the old and new owners respectively (Aronoff and Ward 1992; Marshack 1993; Seymour 1993; Welsch 1993; Whiteseide 1993; Chrisman et al. 1998; Feltham et al. 2005). Lower-ranked managers and other employees also play a role when it comes to tackling the problem of the managerial vacuum since they can make important contributions to ‘keep the track’. Approaches from evolutionary theory and entrepreneurship theory tell us that we need to consider the historical context and the surrounding network as well. Moreover, evolutionary theory scrutinizes how far decisions in the past affect the run of events in the future. In particular the research on

organizational paths allows for considering lock-in and lock-out effects in connection with business succession (Arthur 1989). This integrated context of past, present, and future seems to be useful to understand the managerial vacuum comprehensively.

This paper is to outline the nature of the problem of the managerial vacuum and to explain the background. It focuses the case of *inter-family business succession* since this particular type reveals best the peculiarities of the emergence and development of this managerial vacuum. One more reason for this delimitation is the simple fact that intra-family succession processes are much better researched in literature (e.g. Sharma et al. 2003; Brockhaus 2004; Royer et al. 2008; Tatoglu et al. 2008).

Accordingly, the *research questions* of this paper are:

- Why does a managerial vacuum in case of inter-family business succession occur?
- How (far) can the managerial vacuum as a problem be conceptualized?
- What are typical cause and effect relationships that help us to understand the problem?

Methodological Considerations

Due to the under-researched nature of the problem we try to understand it more thoroughly by mirroring it against a selection of commensurable theories. Thus, this paper is conceptual and exploratory. It seeks to identify basic causalities giving a basis and a frame for empirical work following up. Since the managerial vacuum is an organizational phenomenon, we have to go beyond traditional approaches to understand business succession that focus primarily on the entrepreneurs involved (e.g., Stavrou 1999). With the *firm* as the *unit of analysis*, the

paper employs evolutionary theory and in particular *approaches of path dependency* for the purpose of identifying organizational commitments. This step helps to understand why the managerial vacuum occurs in case of business succession. This initial step is accompanied by addressing the managerial vacuum and its proactive management by using *entrepreneurship theory*. Entrepreneurship theory provides us with an understanding of what a firm has to do to arrange a state of competitiveness. To this end, modern approaches of entrepreneurship theory (e.g., Freiling 2008) present a set of entrepreneurial functions that help to conceptualize the entrepreneurship construct. We employ them to address the managerial problems of business succession and in particular to uncover the opportunities of this organizational breakpoint. Combining considerations from path dependency and entrepreneurship theory thus allows for a sound understanding of explicit and implicit organizational commitments as well as the threats and opportunities in connection with business succession.

As for the cause and effect relationships in the context of the managerial vacuum entrepreneurship theory contains a set of causalities (Freiling 2008) that are relevant to business succession as well. In connection with the constructs from approaches of path dependency, we are able to develop a system of propositions guiding future research. At the same time they allow for drawing some first managerial conclusions.

The paper proceeds as follows: Next, we discuss business succession and its managerial challenges in more detail to understand the very nature of the managerial vacuum from a both personal and organizational angle. Afterwards we introduce the formerly chosen theoretical framework and relate entrepreneurship theory to the managerial challenges outlined before.

Another step is to develop research propositions for empirical work following up. Finally, we address implications for research, practice, and policy.

Business Succession and the Managerial Vacuum

Business succession is a managerial issue that can be addressed by the Pettigrew (1987) framework of different facets of organizational (change) phenomena: context, content, and process. Since business succession is an important part of managing organizational change, we can apply the Pettigrew taxonomy in this context without any modification. Thus the following sub-sections exactly proceed in this manner.

Context of Business Succession

Pettigrew (1987) mentions internal and external context issues. Without intending to address the whole range of context factors in the realm of business succession we focus only on those issues with a considerable impact on the managerial vacuum. In this regard in particular internal context factors matter. We already mentioned briefly what the managerial vacuum is about. Next, we focus on the *internal context issues* relevant to the managerial vacuum of business succession in more detail.

Time pressure. In many situations business succession becomes a serious problem simply because of the fact that the firm is not prepared for the transition. The old entrepreneurs very often under-estimate the necessity of planning and managing business successions and tend to ignore possible unfavorable runs of events (e.g. death or severe illness). In case of lacking preparedness, however, the time pressure increases in case of unfavorable events. Urgent solutions have to be found in short time. More important, in those situations the old

entrepreneurs are due to the developments not able to manage the firm the way they did before. At the same time, new entrepreneurs are either not at hand or – at best – available but not familiar with the firm and the specific situation. In case of urgency, therefore, the managerial vacuum appears in a rather paralytic fashion with disastrous consequences.

Role and position of the successor. Internal and external business successions differ largely. Internal modes include at least intra-family successions, management buy-outs, and employee buy-outs. In all cases the successors are familiar with the situation of the firm, and in some cases they are skilled to a high degree so that the managerial vacuum can not unfold a very vulnerable power. This, however, depends to a large extent on skills available that should be treated separately below. Often more problematic is the case of external business succession when new entrepreneurs buy in. This management buy-in is particularly problematic if the successors have no significant industry know-how and only limited information on the specific situation of the target firm via due diligence or comparable assessment procedures. In this context a temporary managerial vacuum can not really be avoided and causes considerable trouble regardless the fact that new entrepreneurs with a background from other industries might trigger useful processes of strategic renewal due to the different experiences they made.

Human and social capital of the old and new entrepreneurs. As already mentioned above, the skills of the entrepreneurs matter much (Chrisman et al. 1998). Lazear (2005) pointed out the multitude of available skills of entrepreneurs by introducing his “jack-of-all-trades” notion. Backes-Gellner and Moog (2008) extended his human capital theory based view by stressing the relevance of social capital. In case of a huge difference between the human and social capital of the old compared to the new entrepreneurs with a skill advantage of the old ones, a

managerial vacuum is more likely. This case is not unusual but represents a major problem of many business successions: The new entrepreneurs are often less experienced. Over and above this, they do not have the social ties the old entrepreneurs had to manage the business of the specific firm. As for the run of the business this problem can be fatal since the lack of network capital can not easily be circumvented.

Number of entrepreneurs involved. As for the managerial vacuum it makes a difference whether a team of old or new entrepreneurs is involved in managing the firm. In particular with regard to the successors a team of new entrepreneurs is in a better position to get the business managed. Lansberg (1988) differentiated among constellations of successorship in family businesses and identified the following types: controlling owner, sibling partnerships, and cousin consortia. Since we focus in this paper on inter-family succession, we can at least transfer Lansberg's basic observation to this setting that over time the number of entrepreneurs managing the firm oftentimes increases. Anyway, problems in connection with the managerial vacuum can be mitigated by teaming up.

Size and age of the firm. Firms that are big and old do not only have a rich tradition but at the same time a higher degree of structural complexity. Hannan and Freeman (1984) addressed phenomena of increasing organizational inertia in connection with age and size. If this holds true, the managerial vacuum is a particular challenge of old and bigger firms due to complexity reasons.

Kind of succession (ownership and/or leadership succession). Although there might be numerous criteria to differentiate constellations of business succession, one important issue is the subject of succession. In some cases only a transfer of capital and ownership takes place

whereas in managerial regards nothing important happens. In other cases, however, the succession refers to leadership issues of the firm. The latter case is the standard one and causes the managerial vacuum.

Besides these internal context factors *external* issues might matter as for the managerial vacuum as well. In particular three different factors have a rather strong impact on managerial challenges and, accordingly, the managerial vacuum: Firstly, environmental dynamism helps to separate turbulent situations from stable settings. In the latter case, managerial issues are controllable whereas in case of high levels of dynamism the managerial challenges can get easily out of control. Secondly, the intensity of competition matters. The more aggressive competitors behave, the more the firm is challenged and under pressure. The managerial problems are considerable so that a temporary managerial vacuum can threaten the survivability of the firm in a succession process. Thirdly, market structure matters. The more the products need to be differentiated, the higher is the coordination task and thus the managerial challenge. The vacuum is higher c.p. when markets are more complex.

Content of Business Succession

Approaching content issues implies to reflect the very nature of business succession. In this regard, business succession is a kind of organizational change that refers to leadership issues. Within the scope of this paper, business succession implies a change not only in ownership but in leadership as well.

More specifically, the succession remarks a transition from one more or less “balanced” managerial situation of the old owner(s) to another “balanced” situation of the new one(s). To arrange a new balance includes a finished procedure of change management. However, what

does such a transition imply? Although general answers can hardly be given facing the numerous different business successions, we can at least describe the organizational layers and elements involved in this change process. It is not unusual to make two distinctions in this respect (Gersick 1991): Firstly, the change can affect organizational surface layers, such as the formal structures, the responsibilities, the systems available and the like, or the deep-rooted structures, such as skills, values, beliefs, or the organizational culture. Secondly and closely connected with the aforementioned aspect, we can differ between formal and informal structures of a firm. Oftentimes, the deep-rooted structures are informal whereas the surface structures are to a high extent formalized. In case of business succession, at least some of the surface and formal structures are affected by the organizational change, since the ownership and the responsibilities can not remain the same. However, many problems of business succession cannot be addressed if we only refer to the formal issues. In particular in connection with the managerial vacuum, important elements of the deeply rooted informal structures change: The new entrepreneurs are not only equipped with a different set of skills. Moreover, they have different mindsets so that the whole strategic logic of the firm will be modified – consciously or unconsciously. In management and organization theory the (rather similar) constructs of the mental models (Kim 1993) or the dominant logic (Prahalad and Bettis 1986) directly address this issue. At the same time the whole value systems undergoes a change. It is open whether major or minor adjustments occur and how they were adopted by the employees. As for the corporate culture similar considerations apply. What is important with regard to the managerial vacuum is the simple fact that all these changes take time and managerial energy. Since the deep-rooted structures are not only opaque but rigid as well, we can assume that it is difficult for new entrepreneurs to manage this change exactly and in due time. As a result, the content issues reveal that the transition goes along with more managerial work for the entrepreneurs while at the same time the whole managerial power is

temporarily not available during the succession. This already leads us to the next facet of business succession, the process dimension.

Process of Business Succession

The process character already transpired in the previous considerations. We have the opportunity to understand business succession in a more formal sense (Handler 1989). Then the process from the official decision of the old entrepreneur(s) until the formal transfer of ownership and leadership to the new entrepreneur(s) is relevant. As already mentioned the problem of the managerial vacuum goes far beyond formal issues. Therefore, we are well advised to understand succession more broadly (Sharma et al. 2000; Le Breton-Miller et al. 2004) and to include earlier steps of preparation by the old entrepreneur(s) as well as problems of the successors when finding the new "balance" after transferring ownership and leadership. When addressing this scope of time we can better understand whether and how far the managerial vacuum appears and develops.

Over and above this, the typical phase structure of business successions can be structured as follows: The first part is the *pre-succession phase*. Pre-succession includes evidence of the old entrepreneurs of the succession problem and first steps of preparation. This evidence triggers first steps of generating succession options and screening new entrepreneurs. It is rather obvious that the pre-succession phase can last very long. However, in other cases rapid pre-successions occur. Rather needless to say, first intentions and actions will be carefully observed and therefore perceived by the stakeholders of the firm. This often causes a managerial vacuum since the environment of the old entrepreneurs notifies that there is something going on. According to this, the activities of the firm might run differently from

this point. Having perceived the first weak signals, the stakeholders prepare themselves for the change to come which might lead to a first break of managerial influence.

The *succession phase* is the second step of the procedure and remarks the shift from general screenings to concrete decisions as to the procedure and the negotiations with potential successors. The succession phase includes the bargaining process and the final decision and ends with the formal transfer of ownership. During this procedure the process of decreasing influence of the old owners continues – sometimes creeping, sometimes dramatically. At the same time it is possible that the successors already gain certain impact on the run of events. This, however, is typically not enough to avoid the managerial vacuum that becomes a big issue in the succession phase.

Afterwards, the *post-succession phase* begins. Although the formal transfer of ownership already took place the transfer of leadership might be lacking. The reason for this is the phenomenon of the "shadow of the old entrepreneurs" that causes a kind of administrative heritage (Collis 1991). Having managed the firm for a long time and being familiar with often all the employees it is simply unrealistic to assume that the formal transfer of ownership cuts the influence of the old owners completely and immediately – independent from the new formal state of corporate governance. It is more a process of a shadow of the old entrepreneurs slowly fading and vanishing – and not abruptly ending. At the same time the successors gain more and more influence so that the managerial vacuum is often only a temporary phenomenon – as long as the new entrepreneurs are able to find a new "balance".

So far, we highlighted a typical run of events that includes a managerial vacuum. Under-managed, this vacuum might cause a severe corporate crisis. However, we should not ignore

the multitude of alternate run of events. In particular, a vacuum can be completely avoided if the old and new entrepreneurs find a way joining their managerial forces or to fill existing gaps by interim management. Being aware of this issue can, oppositely, make the management stronger than before and after the succession. However, this is a rather optimal and unlikely constellation. More likely is a state of a partial vacuum of temporary nature. The character is partial since at least one party (old or new entrepreneurs) care for the managerial duties of the firm. Unlikely but not impossible is the state of a total vacuum when both the old and the new entrepreneurs do not care for executing managerial tasks. Being confronted with other issues in the wide realm of succession certain duties get out of sight. Although unlikely, such a situation is highly dangerous.

- insert table 1 about here -

Table 1 displays an overview of the mentioned context, content, and process issues of business succession. What can we learn from this initial discussion on the managerial vacuum of business succession? Firstly, we can assume that this problem most frequently challenges the succession processes. However, we already learned that this is not necessarily so and that the entrepreneurs involved have certain means to avoid any kind of vacuum. Secondly, the managerial problem is predominantly a problem of the succession phase. However, this is obviously only a half-truth. Before the formal succession procedure takes place, the old entrepreneurs lose managerial power when triggering the pre-succession phase with a perceptible purpose by other stakeholders. Besides that, a managerial vacuum is a problem of the post-succession phase as well since the new entrepreneurs often do not unfold their managerial power instantly.

So far, the considerations suggest that the occurrence of a managerial vacuum is a phenomenon that in most cases appears and cannot easily be avoided. Is this deterministic view really adequate? It is not reasonable to assume that all these problems can be easily avoided. However, firms and the entrepreneurs involved have some discretion to manage the problems we outlined above. Insofar a moderate voluntaristic perspective seems to be more adequate to consider both the restrictions due to the embeddedness of the firm and the chances based on entrepreneurial moves. It transpires that such a view is closer to reality. Accordingly, the theoretical frame of reference takes this consideration into account.

It seems that certain factors might cause this managerial vacuum. It deems necessary to understand these factors. This requires going beyond descriptions by analyses and predictions. To this end, we select adequate theories that address managerial issues in a moderate voluntaristic fashion over time.

The Managerial Vacuum in the Light of Evolutionary and Entrepreneurship Theories

Basics of Entrepreneurship Theory

The nature of the managerial vacuum as a phenomenon has been outlined above. We can sum up that this vacuum is highly context specific. One can find similar constellations but, in practice, every succession will be different as for this particular problem. Therefore we may call this phenomenon idiosyncratic. Moreover, the run of events is highly relevant to the managerial problems that occur. This implies to use evolutionary theories since they consider developments and dependencies over time and, in particular, potential self-reinforcing effects. Finally, business successions should not be treated as totally context dependent. Instead the managerial discretion of the entrepreneurs involved should be explicitly

considered. To this end, we employ theories of the moderate voluntaristic kind as mentioned above. Finally, relevant theories need to touch on managerial issues to locate and explain the vacuum.

As we will show in more detail below, entrepreneurship theory – and approaches of path dependency as well – fit into this cluster and pass the test based on the mentioned criteria. However, entrepreneurship theory does not represent a homogeneous theoretical body but a frame of different research traditions that are tied together by the crucial question of the functions of the entrepreneur. In particular, the theory of the entrepreneurial functions claims that the execution of the relevant entrepreneurial functions explains performance effects in terms of business and/or economics. This research tradition was founded by the seminal work of Cantillon (1755). We do not intend to present a complete overview of all the facets of entrepreneurship theory (for such an overview see Hébert and Link 1988). However, based on prior contributions we structure the heterogeneous content of entrepreneurship theory by raising four questions that are relevant to our core discussion.

(1) What are the functions the approaches of entrepreneurship theory deal with?

In the long history of entrepreneurship theory both static (e.g. ownership) and dynamic (e.g. innovation) entrepreneurial functions played a role. However, it is maybe one main result of entrepreneurship research that only the dynamic functions are crucial to an understanding of role of entrepreneurship in competition. Thus it makes sense to focus on dynamic functions henceforth. Within the scope of dynamic functions many proposals have been made – as e.g. Hébert and Link (1988) pointed out. Once again, not all of these functions are really relevant in the same way. When reviewing the catalogues of numerous functions under discussion, only a limited set of functions seems to cover the scope of managerial issues in competition.

In this regard, Barreto (1989) proposes to focus on a set of four functions, namely the innovation, coordination, arbitrage, and risk taking function. In later parts of this section we will come back to this proposal again.

(2) Of how many functions do the concepts consist?

The concepts differ to some extent by the kind and number of functions in use. Table 2 displays three different categories in this regard: Firstly, the mono-function approaches focus on one and only one managerial topic and consider it relevant to reflect the most decisive issue in competition. There are many prominent entrepreneurship researchers belonging to this branch: Among them we can find Cantillon (1755) and Knight (1921) with their focus on the function of bearing uncertainty or Kirzner (1973) with his particular emphasis on arbitrage. However, when regarding the character of recent competition with an oftentimes high level of turbulence and complexity (e.g. the hyper-competition concept of D'Aveni 1994) as well as numerous simultaneous challenges for entrepreneurs it transpires that the execution of only one function does not seem to be enough to cover the nature of competition completely. One response in this regard is the so-called meta-function approach (Freiling 2008). A meta-function is an integrative set of different sub-functions that are closely connected and collectively respond to a super-ordinate task. Maybe the most prominent meta-function is the concept of innovation developed by Schumpeter (1934). Schumpeter understands innovation in a very broad sense, encompassing product, process, organizational, marketing, and purchasing innovations. Casson (1982) claims for considering the coordination function that is a meta-function as well. Coordination in Casson's view consists of the sub-functions of (1) taking the opportunities of coordination, (2) making judgmental decisions, and (3) market-making. Meta-functions are defined more broadly and go beyond the scope of single entrepreneurial functions. Therefore, they are in a better position to

respond to the numerous managerial challenges in competition – although they can hardly address all the managerial necessity. For the same reason some scholars favor the so-called multi-functional approaches. Schneider (1987) started with a set of three interrelated functions (see table 2): While he considers the entrepreneurial function of taking other people's uncertainty constitutive for founding and maintaining firms, he refers to the arbitrage function in the Kirznerian sense for maintaining the firm's subsistence in external affairs and the function of implementing changes in leadership for internal purposes. Schneider's approach is insofar a crucial milestone of entrepreneurship theory since his approach is able to cover the huge variety of managerial issues in a specific manner while at the same time explaining the emergence and development of firms. His contribution rests to some extent on the simple fact to go beyond functional catalogues without an interrelation of the different functions (like the one of Barreto 1989). Whereas Schneider intends to explain the evolution of the multi-person firm, a more recent approach developed by Freiling (2008) is devoted to address the evolution of the single-person firm as well. Freiling (2008) adopted the functional catalogue by Barreto (1989) and developed an interrelated functional system explaining organizational development the way Schneider (1987) did. We will refer to this approach in our considerations below.

- insert table 2 about here -

(3) What do the approaches primarily intend to explain?

In fact, at least two streams of entrepreneurship theory exist in this regard. The first one focuses on the personal level and, thus, the entrepreneur. Table 2 displays some selected protagonists of the personal approaches: E.g., Schumpeter (1934) focuses on the entrepreneur as an elitist person, equipped with considerable power. Other scholars such as Kirzner (1973)

emphasize personal traits and attributes like alertness. Different from these non-institutional approaches the second stream abstracts from the single person of the entrepreneur. Von Mises (1940) was the first one who de-coupled the execution of entrepreneurial functions from the person of the entrepreneur. More explicitly, the approaches of Schneider (1987) and Freiling (2008) directly state that from the viewpoint of the firm it is not important who performs the functions. It is only vital that an execution takes place at all – more or less independent from single agents within a firm. For the managerial vacuum in case of business successions it is important to say that (almost) every employee has at least some discretion in his work to act entrepreneurially in the sense of executing entrepreneurial functions. Moreover, external parties can provide the firm with managerial support so that in case of a change in leadership a managerial vacuum does not necessarily occur. The discussion reveals that for the purpose of analyzing a managerial vacuum in case of business succession it is useful to employ organizational instead of personal approaches of entrepreneurship theory.

(4) To which basic stream of economic theory do the approaches belong to?

A focal issue of economic theory is the relation to equilibrium thinking. Perfect competition and market equilibrium is the core concept of neoclassic theory. Many economic theories in use still deal with this point of reference – in particular those belonging to the so-called functionalist theories in the sense of Burrell and Morgan (1979). In this regard, we can structure the body of economic theories in four categories: Firstly, the notion of perfect competition and market equilibrium is the paradigmatic basis. In those settings entrepreneurship and entrepreneurs are simply irrelevant since perfect information equals all market participants and entrepreneurial moves have no chance of improving the entrepreneur's individual state. Besides that, secondly a group of theories focuses on the market process and its "balancing" impact. New discoveries cause temporary disequilibria

but the use of knowledge in markets and societies (by employing the market process) bridges gaps between the supply and the demand so that after all a pervasive trend towards market equilibrium exists (Kirzner 1973). Other scholars are skeptical that this trend towards market equilibrium generally exists. Thirdly, Schneider (1987) argues that in an uncertain world it is not possible to predict whether the run of events is equilibrium or disequilibrium oriented. The development is rather open and depends on contingency factors. Fourthly, some scholars promote the notion of an economic development with a vast increase of disequilibria over time – with dramatic consequences as for the economic system (Schumpeter 1942). In the face of the different kinds and multiple faces of uncertainty (Freiling et al. 2008) we share the point of Schneider that we cannot generally predict whether the run of events is (dis-) equilibrium oriented.

Against this background, the positioning of this paper in the landscape of entrepreneurship is complete. Next, we introduce the chosen entrepreneurial theory and relate it to our main topic, the managerial vacuum in case of business succession.

Entrepreneurship Theory and the Managerial Vacuum of Business Succession

We employ a multi-function approach of entrepreneurship theory that addresses the organizational development over time. The approach of Freiling (2008) tackles both the single and multi-person firm. Figure 1 depicts the structure of this approach in the context of the most important issues of organizational development, i.e. (1) the emergence and the permanent renewal of the firm, (2) the protection from the negative impact of uncertainty on the firm, and (3) the utilization of the endowment available to the firm.

- insert figure 1 about here -

It is argued that four entrepreneurial functions respond to these issues in a particular manner. The innovation function, conceptualized similarly to Schumpeter (1934) (see figure 2), allows for both pro-active and reactive moves in competition and, thus, for constant renewal. The innovation function drives major and minor improvements as well. Innovations can open new horizons in competition but at the same time any innovative move implies to bear certain risks so that it is difficult to predict how far the endeavor is profitable after all. Accordingly, the innovation steps need protection by risk management activities. Risk management implies to develop and employ means to recognize, evaluate, and cover risks. The innovation function is particularly devoted to *explorative* activities of the firm. This risk management function accompanies the innovative moves and to some extent enables the firm to proceed in exploration. Insofar these two functions are connected by a common purpose.

While innovation renews the organization and configures the value-added infrastructure of the firm in connection with risk management, the next two entrepreneurial functions are devoted to make the best of this infrastructure available. This is exactly the reason why these functions are *exploitative* in nature. One function is dedicated to manage the firm's interface to the markets (arbitrage), the other function coordinates the run of the internal processes (coordination). The arbitrage function, conceptualized similar to Kirzner (1973), includes the identification of (profitable) business opportunities, sometimes its pro-active shaping to activate latent demand as well, the negotiation and bargaining process, and finally the development of market-relevant assets (see figure 2). Arbitrage in this sense is meant to make the best of the (sales and purchasing) transactions the firm is involved in. As mentioned above, the coordination function only refers to internal issues and is, therefore, much more focused than the meta-function according to Casson's (1982) understanding. The

coordination function consists of structuring and driving the value-added system of the firm, to allocate and permanently reallocate resources, and to provide the employees with a sense-making system to unfold their motivation potential.

- insert figure 2 about here -

Obviously, firm can only survive and be successful if a certain alignment among the entrepreneurial function exists. On a more general level, March (1991) argues that exploration and exploitation are rather different managerial challenges but need to be handled the integrated way. The harmonious interplay of exploration and exploitation is most recently addressed by the construct of organizational ambidexterity (Tushman and O'Reilly 1996; Gibson and Birkinshaw 2004). The other way round, an adequate handling of exploration and exploitation ignoring the external environment is most likely to invoke a managerial gap or vacuum. In the context of the four entrepreneurial functions we can pick up this idea and relate it to the internal alignment of the functions in connection with matching the external conditions. In the next section of the causalities we refer to this consideration once again.

This discussion leads us directly to regard the causalities of the managerial vacuum. This vacuum can be traced back to an insufficient handling of the entrepreneurial functions. Entrepreneurship as a construct independent from a single person but related to the whole organization can be conceptualized as the execution of the four functions that drive the organizational evolution (renewal, protection, exploitation). This implies to care for each of the functions individually and to put them all together into a cohesive whole. Figure 1 explains the firm's competitiveness (and performance) exactly in this manner. In case of business succession different things happen. Referring to the phase-differentiated approach

according to the considerations of the previous section, the problems begin in the pre-succession phase. Despite all situational details, in the *pre-succession phase* the old entrepreneurs will lose parts of their managerial impact. This will directly lead to a worse execution of one or more entrepreneurial functions. One can expect that in particular internal coordination will become much more problematic when the employees discover that there is something going on as for business succession. The same may hold true concerning the arbitrage function, in particular in case of market partners aware of the new managerial constellation and their realistic chances to improve their bargaining processes. Moreover, in case of fading impact of the old entrepreneurs and at the same time no successor at hand the innovative power will typically decrease and the risk management in both explorative and exploitative regards will become a rather challenging endeavor.

Whereas in the pre-succession phase the managerial vacuum as a problem occurs the first time and unfolds its first destructive power, things get worse in the *succession phase*. In this part things become official. The old entrepreneurs find themselves more and more in the situation of the "lame duck" and the succession is still open. Once again the performance of the exploitative function is directly affected since the uncertainty among the staff reaches its top – and the same applies for most of the external stakeholders of the firm as well. Sense-making in such a situation is difficult since such a sense can hardly be separated from the leaders of the firm. One can expect that also exploration efforts will hampered in this transition state. Although many of the old entrepreneurs will fight this situation their impact will be limited. Thus, the managerial vacuum caused by an insufficient execution of entrepreneurial functions reaches its top in this situation and can cause severe states of organizational crises by an at least temporary lacking competitiveness. This, however, implies that the more a succession gets concrete by advanced negotiation processes between

the old entrepreneurs and the successors a re-activation of the entrepreneurial functions becomes possible. Another interesting question is whether and how far a broad distribution of the execution of entrepreneurial functions might help to mitigate the problem of the managerial vacuum. In this succession phase different runs of events are possible. The more the staff and potential third-parties involved in the execution of the functions behave in a loyal and responsible manner from the firm's point of view, the more we can expect that serious problems of under-managed entrepreneurial functions can be avoided. On the other hand, the succession phase is a state where informal power can be easily redistributed. Thus, the people involved in the execution of the functions can take this chance to improve their personal situation at the expense of the firm.

As for the *post-succession phase* the process of closing the managerial gap is already running. After the transfer of ownership and leadership the new entrepreneurs are involved in finding a new "balance" – also in terms of an internal and external fit of the entrepreneurial functions. This is independent from the question whether the successors stick to the chosen strategic path of the old entrepreneurs or not. In every case they need to find a way to perform the functions. What we can say based on the assumptions of this stream of entrepreneurship theory (Freiling 2008) is that subjectivism implies an unequal distribution of knowledge, skills, and motivation of the agents. Additionally, also the personal network and, therefore, the social capital of the entrepreneurs differ. Taking this antecedent seriously, every entrepreneur performs the entrepreneurial functions his own way. Therefore, at least minor managerial changes can and should not be avoided.

In sum, entrepreneurship theory provides us with a heuristic frame to specify the nature of the managerial vacuum in terms of leadership challenges. This frame allows for addressing both

the personal and the organizational level. As to organizational regards entrepreneurship theory explains how the execution of entrepreneurial functions contributes to organizational development and how far an insufficient performance of the functions causes organizational crises by a lacking competitiveness. Notably, entrepreneurship theory sheds light on the path of organizational development from a *macro* point of view of the organization. The macro perspective takes the firm, the competitors, the customers and suppliers, and the business environment into account. The organizational path seems to be characterized by a managerial disruption that causes the vacuum. The discussion reveals that entrepreneurship theory equips us with some useful cause and effect structures. However, what is still missing is a more precise understanding of the *micro-foundations* of the organizational evolution in case of business succession. To this end, we look for a theory that belongs to the same paradigm (the interpretive paradigm according to Burrell and Morgan 1979) and employ path dependence research in the next sub-section.

Path Dependency and the Managerial Vacuum of Business Succession

The concept of path dependency initially addressed technological trajectories in markets and social fields (David 1985; Arthur 1989). More recently, strategic management adopted path dependent analyses (e.g. Durand 2006; Sydow et al. 2009). The basic reasoning is, firstly, that "history matters" (Teece et al. 1994) so that events in the past have an impact on the run of events in present and future times due to organizational commitment. North (1990) regards path dependence as the consequence of small events and chance circumstances that can determine solutions that, once they prevail, lead to a particular path. Secondly, certain technological or behavioral standards develop over time thanks to self-reinforcing mechanisms that create a certain order in a more or less chaotic situation with several runs of events possible. The driver is a "critical juncture" that frames the running development.

Obviously, certain structures, once they prevail, tend to reproduce themselves. Notably, this reproduction can take place independent from economic criteria of efficiency so that inefficient solutions can undergo a process of retention. It appears to be useful to analyze these mechanisms of path dependency to understand the phenomenon of the so-called "increasing returns" that narrow the channel of organizational development.

This, however, is only one facet of interest in the context of business succession. In fact, we need to understand the "administrative heritage" of the old entrepreneurs and their shadow on the firm in post-succession steps. Therefore, this part of path dependency is relevant to this paper. However, a complete understanding of the phenomenon of business succession from a path dependence angle implies to extent the typical reasoning. What we need to know in this context is how the break or at least the transition in leadership can be explained. To this end, we need to understand how certain trajectories of organizational evolution are modified or – in extreme cases of business succession – how an old path can be redirected, broken and/or a new one created. This is in fact a rather new issue in researching organizational paths. We should keep these phenomena of path changing and path breaking in mind when addressing the change in leadership in connection with business succession.

Before that, we need to introduce the most important causal mechanisms of path research that explain the above mentioned rigidities. From the catalogue of available mechanisms we select those that refer to the entrepreneurial issues under scrutiny. A literature review (Katz and Shapiro 1985; David 1985; North 1990; Arthur 1994; Greif 1994; David 1994; Mahoney 2000; Sydow et al. 2009) reveals the following mechanisms: effects of learning, coordination, complementarity, power, expectations, and investments. Subsequently only those

mechanisms connected with the phenomenon of the managerial vacuum are discussed in more detail.

Learning effects are of pivotal relevance to our debate. Firstly, the old entrepreneurs learned how to do their business and how to handle the performance of the entrepreneurial functions. In this regard, entrepreneurs develop a certain dominant logic (Prahalad and Bettis 1986) how to make decisions to attain certain goals. Sanchez et al. (1996: 10) point out that the strategic logic of a firm

> "(…) refers to the rationale(s) employed (explicitly or implicitly) by decision makers in the firm as to how specific deployments of resources are expected to result in (…) attainment of the firm's goals. All employees within a firm have at least some degree of discretion in the allocation of resources. (…) Thus, the strategic logic of the firm is not an exclusive creation of top managers. (…) the firm's strategic logic (…) resides at all levels of the firm, and for this reason, a firm's strategic logic may be subject to inconsistencies across the various activities of the firm."

Such a mental frame helps the entrepreneurs to select and interpret information and to make decisions based on prior knowledge and experience. This also relates to the execution and the integrative handling of the entrepreneurial functions. The more a logic in use leads to acceptable results, the more mental inertia evolve and restrict the openness for other ways of entrepreneurial action. Secondly, internal and external stakeholders as well get used to the way the old entrepreneurs managed their business. Insofar certain standard procedures and managerial routines evolve and penetrate the organization. Employees get used to this procedures based on specific experience made. So far, we can explain the "shadow of the old entrepreneurs" to some extent with the existence of these logics. Obviously, long phases of learning provide the firm with stability and create mental inertia. Unlearning is time consuming and only makes sense when new mental logics are in position to adequately replace the old ones. This, however, is one major issue in business succession since we cannot expect that the mental logics of the successors are already well adapted to their new

business. More than that, the employees are typically rather unaware of the successors' style and way to manage the business so that the adoption often takes a lot of time. Moreover, the adoption can be inefficient in case of trial in connection with too much error. These micro-foundations are useful to understand the managerial vacuum since the old logics already fade away when the new logics are not perfectly developed or well understood by the (primarily internal) stakeholders. In particular, the execution of the coordination function suffers from this problem. Besides that, not only a vacuum might occur but also a break of the organizational path. The antecedent of subjectivism implies that the logics of the old and new entrepreneurs will definitely differ – at least gradually. Thus, the way of handling entrepreneurial functions will change. This change refers to the content of the execution of the functions as well as the entrepreneurial division of labor with internal and external stakeholders. Based on this we can learn that every business succession bears the potential of breaking current trajectories and, remarkably, of creating new ones – although organizational inertia work.

Another relevant issue of business successions is the fact that all groups of stakeholders hold certain *expectations* on the development of leadership affairs. In early stages of the succession process many different expectations exist – some of them complementary, some of them conflicting. Focus of the expectation is typically the leadership constellation in the post-succession phase. Due to the managerial vacuum the stakeholders are aware of the situation of "reshuffling the pack", i.e. who performs entrepreneurial tasks and how entrepreneurial functions will be executed undergoes a process of restructuring. By interactions between the old and new entrepreneurs and the other stakeholders of the firm the number of alternative expectations often decreases during the succession process. Over time only a few expectation concepts will "survive". More important, the remaining expectations

get more powerful and it is not unlikely that some of them become "self-fulfilling prophecies" (Merton 1948). This process highlights the hidden power of expectations and tells us that the new leadership "balance" is only to some extent influenced by the successors. Other parties have sometimes important impact as well. In terms of entrepreneurship theory, the test variations in the minds of the actors do not only influence the real variations but the selection and retention process as well.

Coordination effects create path commitment and are relevant to leadership issues in the realm of business succession as well. Path dependency typically argues that in a social field without any rules coordination is difficult and costly due to behavioral uncertainty of the agents. Rules, practices, and routines structure this social field and foster a smoother run of the activities. As for entrepreneurial issues the same holds true. A new start-up is a rather unstructured organization. The entrepreneur sets standards and provides the firm with a sense of direction – sometimes consciously, sometimes not. Therefore, not only mental frames are established before succession starts but process structures as well. Once in use, they facilitate internal coordination and the way the transactions are managed. Thus, coordination effects have at least a rather "visible" impact on exploitation. However, we can expect that the exploration functions are affected as well. A considerable organizational momentum is the result. Once again, these coordination effects are put in question when succession starts since rules and other procedures are to some extent bound to the leadership personnel and, in particular, the old entrepreneurs. The chance to modify the coordination frame exists only in the succession phase itself and maybe to some extent in the post-succession stage, depending on the power of the successors. The "window of opportunity" is, therefore, not very long open. At least those coordination arrangements that are unfavorable from the (primarily

internal) stakeholders' point of view undergo an assessment and – most likely – an attempt to change the process structures due to the managerial vacuum.

The final effect we consider here is *power*. As long as we tackle leadership issues we address power relations at least implicitly – be it formal or informal power. In case of business succession the constellation is rather clear regarding formal power since formal power is transferred in connection with the transfer of ownership. Whereas as for formal power there is always a rather clear cut and no evident managerial vacuum occurs, the situation turns with regard to informal power. Maybe the informal power is one of the most delicate issues of business succession. Depending on the entrepreneurs involved, situations are possible when the "shadow of the old entrepreneur" is omnipresent and the successor struggle for the respect of the corporate stakeholders. Such a situation produces conflicts and can disturb the run of the processes in the post-succession phase completely. The successors will not be accepted by the staff and the old entrepreneurs are at best virtually present. Thus, a certain dilution of a strategic path might occur and cause a managerial vacuum that cannot easily be filled.

So far, we highlighted the most intuitive mechanisms of path research to better understand the micro-foundations of the managerial vacuum of business succession. We did not address any of the self-reinforcing effects relevant to path dependence due to evidence reasons. Admittedly, a final statement on the relevance of the mechanisms can only be made after empirical research since counter-intuitive results are possible as well. However, based on the considerations of the last two sections we can now briefly present our thoughts on causalities of prepare research propositions for on-going research.

Causalities and Research Propositions

This section directly ties in the discussion on causal mechanisms based on entrepreneurship theory and research on path dependence. The reason for dedicating a separate section on this issue is, firstly, to summarize and condense the above considerations and, secondly, to bring together the macro and micro perspective.

Having defined the entrepreneurship construct as the integrated execution of the four entrepreneurial functions driving organizational development, we may assume that entrepreneurship matters as to performance measures (Freiling 2008).

P1a. The better the entrepreneurial functions are internally and externally aligned, the better the firm's competitiveness and the higher the financial performance will be.

As for the business succession context we need to adapt P1a to consider the problem of the managerial vacuum. Business succession typically implies that a new "balance" of entrepreneurial functions has to be found. The transition process weakens the degree to which the entrepreneurial functions are executed.

P1b. Business succession weakens the execution of the entrepreneurial functions and decreases the firm's competitiveness (and financial performance) at least temporarily.

The discussion on the entrepreneurial functions revealed that the degree to which a managerial vacuum in terms of a poor execution of entrepreneurial functions occurs depends on the distribution of entrepreneurial functions. This should be considered in a separate proposition. If the execution of the functions is bound to the entrepreneurs the managerial vacuum will be very extensive. However, in case of too many persons considerably involved in performing the functions is counter-productive as well.

P1c. The extent of the managerial vacuum depends on the distribution of the execution of entrepreneurial functions so that a broader distribution to a limited number of agents mitigates the vacuum.

When the old entrepreneurs leave the firm, typically a considerable amount of human and social capital will not be available to the firm the way before succession. This expertise cannot be perfectly replaced. However, by sharing the execution of the entrepreneurial functions with external partners with a high level of managerial proficiency many problems can be avoided.

P1d. The more the execution of the entrepreneurial functions is shared with professionalized external parties during the succession process, the more problems of the managerial vacuum can be mitigated.

Notably, the notion of an "entrepreneurial division of labor" by sharing the execution of entrepreneurial functions with internal agents and external parties extends entrepreneurship theory. The connection between entrepreneurship theory and path dependence research is another extension of this paper. In this regard, path dependency sheds light on the micro-foundations and allows for developing propositions as well. From a more general perspective, although path dependency tells us much about an organizational momentum, business succession appears to be a "path breaker" with negative performance implications.

P2a. Business succession causes a break of the organizational path since path creating mechanisms go partially and temporarily out of force which affects economies of scale, scope and speed and, thus, changes – and in most cases decreases – competitiveness.

Initially, we pointed out the voluntaristic touch of the chosen theories. Therefore, the effect of P2a is only one side of the coin. At the same time business succession paves the way to organizational renewal. Accordingly, an activation of the innovation function is a typical by-product of business succession. In terms of path dependence research we can expect that path breaking leads to path renewal – and the opening of new horizons.

P2b. Business succession fosters a strategic renewal of the firm and creates new options by creating a new or renewed trajectory so that in connection with a reactivated innovation function and an accompanying risk management function the competitiveness will increase.

As for the debate on learning effects in the previous section business succession affects not only the available knowledge base of the firm but has a negative impact on internal coordination as well. The reason for this is the fact that the old entrepreneurs fostered the development of a strategic logic that penetrated the firm. It depends to some extent on loyalty and employee satisfaction issues but generally the logic is bound to the entrepreneur so that the succession process will a negative impact on these results of organizational learning and, thus, on competitiveness. As for the competitiveness implications we have to keep in mind that the successors bring in new sources of knowledge. This knowledge, however, is regularly not well adapted to the firm.

P2c. Business succession negatively influences the outcomes of learning processes and affects the performance of the coordination function so that the competitiveness decreases.

Since the succession process is a transition with considerable uncertainty the stakeholders involved try to figure out how the future will be. Building and discussing expectations with others is a typical process in an uncertain world. However, this process is time consuming and costly. Moreover, expectations have an impact on reality as the phenomenon of the self-

fulfilling prophecy tells us so that a proliferation of the intended strategic path of the successors can occur that is relevant to both exploitative entrepreneurial functions. This can be problematic but can also go along with positive implications – as strategy process research suggests (Mintzberg and Waters 1985).

P2d. Business succession causes strong expectation effects that lead to an increase of coordination costs, to an insufficient handling of the exploitative functions, and, finally, to a decreasing competitiveness.

As for coordination effects the reasoning is quite similar. The difference is that existing coordination mechanisms go at least partially out of force and decrease the coordination capacity of the firm.

P2e. Business succession weakens the power of existing coordination effects, affects the exploitative functions temporarily, and decreases competitiveness.

The last proposition deals with power issues.

P2f. Business succession creates a partial and temporary power vacuum that affects at least the execution of the coordination function and the competitiveness of the firm.

As a next step, the propositions developed within the scope of this paper need substantiation by empirical fieldwork. It transpires that the first steps of empirical work should be more explorative and longitudinal in nature so that we can better understand the complex nature and the time dimension of the managerial vacuum of business succession.

Implications

This paper was devoted to research the above mentioned phenomenon. In this section, however, we would like to shed some light on some selected managerial and political implications.

As for managers and consultants entrepreneurship theory is useful to locate managerial challenges. It seems to be possible to conceptualize and operationalize the entrepreneurship construct different from prior attempts (e.g. Lyon et al. 2000) by employing an integrated set of entrepreneurial functions that can be easier conceptualized and operationalized. Based on this, we can locate managerial problems in case of business succession – and start to consider how to get them fixed. The system of the four entrepreneurial functions allows not only for a precise monitoring of the (integrated) execution of critical functions in the context of organizational evolution but for a context specific management program as well. Next to this, entrepreneurship theory suggests that beside the entrepreneurs other agents are involved in performing the functions. For coping with the problems in connection with the managerial vacuum different approaches can be identified. One way is to prepare the firm for later succession processes by spreading the execution of the entrepreneurial functions beforehand. Thus, different agents learn to master the managerial challenges and to run the business the proven way despite the fact that a succession takes place. This alternative is not unproblematic since the old entrepreneurs have to decentralize power and responsibility to a large extent. Therefore, another way is to distribute the execution of entrepreneurial functions – but only to a rather limited number of agents. This alternative is insofar attractive as it is much easier for the core leadership team to build strong management routines and capabilities. Moreover, the leadership complexity is lower compared to the previous alternative.

Another issue is the external support of business successions. There is, in fact, no general one best way. However, we can identify typical situations where external support is useful or indispensable respectively. In particular in situations when the old entrepreneur is no longer available (e.g. due to death) and a successor not at hand, an interim management is required. However, even in situations with strong inertia skilled external partners are useful to overcome a critical momentum based on their expertise.

As for politicians we raise the question of governance. Since many succession processes have to be managed in the next couple of years, this issue should more actively penetrate considerations on corporate and market governance systems. In this regard, advisory boards and similar institutions help to fix problems before the pre-succession starts. Another issue relevant to the political dimension is the fact that the huge number of successions requires a certain platforms for entrepreneurs involved. Such a platform can be useful to bring interested candidates together by screening and matching procedures and institutionalized by public private partnerships.

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Table 1. Layers of the Managerial Vacuum of Business Succession

Context Issues of Business Succession	Content Issues of Business Succession	Process Issues of Business Succession
internal context: • time pressure • role and position of the successor • human and social capital of the old and new entrepreneurs • number of entrepreneurs involved • size and age of the firm • kind of succession: ownership and/or leadership succession external context: • environmental dynamism • intensity of competition • market structure	object of change • change of ownership • change of leadership layers of change: • surface layers • deep-rooted layers structures of change • formal structures • informal structures	phases of business succession: • pre-succession phase • succession phase • post-succession phase

Table 2. Approaches of Entrepreneurship Theory

	mono-function approaches	**meta-function approaches**	**multi-function approaches**
personal approaches	e.g. • Cantillon (1755): bearing uncertainty • Kirzner (1973): arbitrage	e.g. • Schumpeter (1934): innovation • Casson (1982): coordination	Barreto 1989: innovation, risk taking, arbitrage, coordination
organizational approaches	e.g. • von Mises (1940): market making		• Schneider (1987): risk-taking, arbitrage, implementing change • Freiling (2008): innovation, risk management, internal coordination, arbitrage

Figure 1. The Freiling (2008: 16) Approach of Entrepreneurship Theory

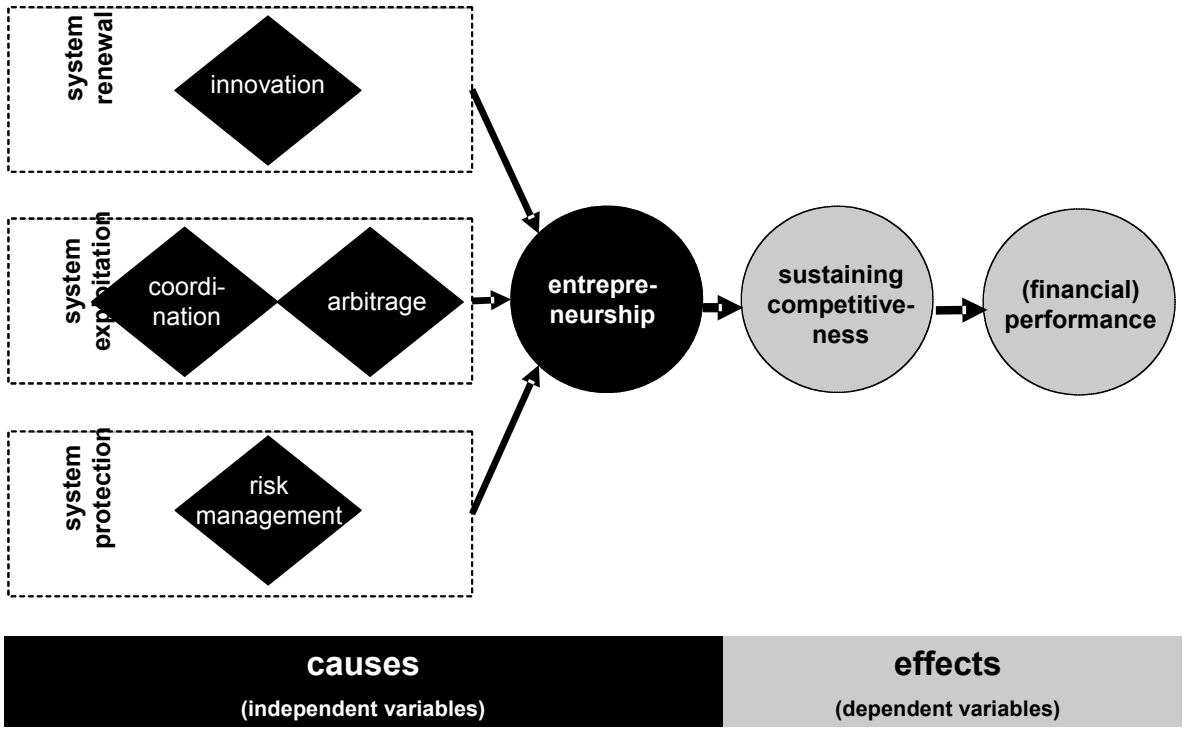

Figure 2. Conceptualizing the Content of the Entrepreneurial Functions

Entrepreneurial Function Criteria	Innovation	Risk management	Coordination	Arbitrage
Role of the function in organizational development	founding and renewing the system	protecting the system	utilizing the system infrastructure (internally)	utilizing the system infrastructure (externally)
Primary nature of the function	explorative	explorative (to some extent exploitative)	exploitative	exploitative
Contents of the functions	• product innovations, • process innovations, • organizational innovations, • market innovations, • purchasing innovations, • business model innovations	• recognition of risks, • assessment of risks, • distribution of risks, • transfer of risks	• setting up the value-added process, • orchestrating the value-added process, • allocating the resources, • motivation and sense-making	• shaping business opportunities, • identifying business opportunities, • bargaining in transactions, • building market-related assets