

## TACIT AND IDIOSYNCRATIC KNOWLEDGE TRANSFER IN THE FAMILY FIRM

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**Abstract:** *This paper examines in depth, using qualitative approach, the process of knowledge transfer in the family firm as a part of the first generation efforts to prepare his successors. The transfer of knowledge is going to happen when the succession has been planned and implemented. Yet, the findings indicate otherwise. The knowledge transfer has been carried out long before the succession took place. In the family firm, the knowledge transferred can be divided into two, i.e. family values or commonly called as philosophical knowledge and business knowledge. The knowledge being transferred is generally tacit and idiosyncratic. This research also found that the critical point of the effectiveness of knowledge transfer was determined by the readiness of recipient to accept the new knowledge. Another finding reveals that the knowledge transfer, as alleged, run very slow and the process is spiraling not linear.*

**Keywords:** *family firm, succession, knowledge transfer*

### INTRODUCTION

Nowadays, the field of study of family firm has entered the stage of maturity (Gedajlociv, *et al.*, 2012), characterized by the recognition of family firm as a separated field of study with its own body knowledge apart from other studies (Sobirin, 2014). The effect of this development is that the topic of the family firm study becomes more extensive and varied as the number of study increases exponentially. Among the topics which gain much attention from the researchers of family firm is the succession (Chrisman *et al.*, 2003; Chua *et al.*, 2003). According to Chrisman *et al.* (2003), 22% of article on family firm is dominated by the succession as the main topic while 8% of them is in the second. The recent development shows that the succession still takes the highest position in the study of family firm, i.e. 17.4%, followed by the study of management and organizational theory (11.5%), the corporate governance (9.9%), the dynamics of interpersonal relationship among family members (7.8%), and the financial management (7.2%) (Benavides-Velasco, *et al.*, 2013).

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Even though the study of succession in the family firm have been conducted many times, it generally focuses on the succession of leadership and power (Carlock & Ward, 2001). This fact becomes paradox as the succession is a complex and challenging process (Longenecker & Schoen, 1978). It means that there are many other topics which need to be elaborated and explored deeply in order to understand the succession issue comprehensively. One of the topic which is recognized as the foundation for the entire process of family firm succession (Higginson, 2009) but has not been studied in depth, and the process is considered to be taken for granted is the knowledge transfer (Carlock & Ward, 2001; Chirico, 2008).

Beside the family firm, it should be admitted that the study of knowledge transfer has actually been conducted and even the acceleration increases simultaneously (Suppiah & Sandhu, 2011). However, the study is generally performed in the process of knowledge transfer in term of organizational level. It is different from the transfer of knowledge in the family firm which tends to occur in the individual level (Endres *et al.*, 2007). In addition, the transfer of knowledge is usually occurred reclusively since the knowledge transferred is idiosyncratic in which generally happens between the predecessor to the heir in the family. The transfer of knowledge which is occurred on a limited basis is considered as a fairness as the knowledge, particularly the main knowledge, is considered as a valuable asset for the family firm so that only the immediate family members are allowed to have such knowledge (Lee *et al.*, 2003). The closure of knowledge transfer aims to keep the company secret.

Realizing that the knowledge transfer within the family firm has not been done excessively (Chirico, 2008), this paper analyzed and examined in depth the process of knowledge transfer from the first generation to the second generation in a family firm of shrimp farming – PT. Kharisma Jaya. This study commonly referred to as a single case study (Yin, 1994) and therefore utilized qualitative approach. In line with this study, all information related to knowledge transfer is obtained through indepth interview with the key informants of the firm, Mr. Harsono – the founder (predecessor) who has transferred the knowledge and Mr. Joni – the successor who received the knowledge.

This approach is used because the knowledge transfer of the family firm tends to be individual and context spesific – as the process is not similar from one incident to another. It means that the result of the study cannot be generalized and may not be applicable for other companies. Nevertheles, the results of the study are expected to give contribution either theoretically or practically, especially for other companies which are experiencing the transfer of knowledge from the predecessor to prepare the next leader of the company.

## LITERATURE STUDY

### **The Essence of the Family Firm**

Although the definitions of family firm are still debated, most of them generally revolve around the important role of the family in term of determining the mechanism of vision and the control of the company and creating the resources and the unique competence of the company (Chrisman, Chua, & Litz, 2003; Habberson *et al.*, 2003). In general, Westhead & Cowling (1998) propose four criteria which are often used as the basis for defining the family firm. Those are (1) the ownership aspect – whether an individual or a family has more than 50 percent of the company share, (2) the perception of family members – whether the family members perceive that the firm they own is a family firm, (3) the aspect of involvement in the firm – whether one or several family members who have majority shares occupy the managerial position, and (4) the aspect of regeneration – whether the second generation or the next generations of the family also has had major shares.

Based on the family involvement in the firm, the general definition of family firm can be grouped into three approaches, namely: component of involvement approach, the essence approach and continuous definition (Chrisman *et al.*, 2003). Component of involvement approach states that it is called as a firm when one of the family members or the family itself affects the running of the firm. Among these effects are that the family position is as an owner who controls the running of the firm directly (controlling ownership); the family runs the management function so that it is capable of taking the important decisions of the firm; the second generation of the family members who derive an abundance of the first generation authority (heritage) runs the company or performs oversight functions; and the involvement of family members - such as the third or fourth descendants and so on in the management of business activities that have been carried out by the predecessors.

The third approach, continuous definitions, is fundamentally different from the two previous approaches. While the first two approaches more emphasize on the aspects of family involvement to differentiate family firm and non-family firm, the foundation of the third approach is the availability of requirement or minimum standard in which a firm is referred to as a family firm. This effort was originally conceived by Shanker & Astrachan (1996) by using the “bull-eye approach”. By utilizing this approach, the two researchers proposed to use three different standards - the loose, medium and strict. In loose standard, the family members should at least have the right to vote to determine the firm’s strategic direction.

In the medium standard, the family involvement in the life of the company is the main requisite. The strict standard requires the involvement of family across generations so that a firm can be called as a family firm. Astrachan *et al.* (2002) improve the way to define the family firm which is gradually initiated by Shanker & Astrachan and propose a newer definition that the family influence is measured by a continuous scale and is evaluated based on three different dimensions of the power, experience and culture. Defining the family firm by means of this technique is known as the F-PEC Scale. Power Scale shows the family's ability to control the ownership, governance and management of the firm. Experience Scale is related to the sustainable influence of family in the company which is characterized by the involvement of the number of family members and the next generation. Culture Scale indicates the overlapping level between the values of family and the company in addition to the level of the family commitment to the company's activities.

From the definitions above, it appears that the role of the family in the family firm is very prominent, and this factor distinguishes the family firm from non-family firm (Cabrera-Suarez *et al.*, 2001; Carlock and Ward, 2001). Thus, the family firm has specific characteristics that distinguish it from non-family firm. These characteristics include the dedication and commitment of family members (Cabrera-Suarez *et al.*, 2001), flexibility, stability, long-term orientation, the immediate decisions-making (Björnberg and Nicholson, 2012), the level of confidence (Björnberg and Nicholson, 2012; Carlock and Ward, 2001), emotional factors (Björnberg and Nicholson, 2012), and idiosyncratic knowledge (Lee *et al.*, 2003). Besides, other things that are not found in non-family firm are the succession, with all the implications emerged, either positive or negative (Ward, 1987).

### **The Succession in the Family Firm**

Yang Wang (2002) states that the succession is basically the core of the family firm - an issue which cannot be found in non-family firm. It can be said that the succession in family firms begins from the desire of the founder of the family firm that the descendants are expected to continue running the firm which has been established painstakingly (Harveston, *et al.*, 1997; Davis & Harveston, 1998). This expectation is associated with the wishes of the founder to build "a family monument" as a part to preserve the family dynasty (Jaffe & Lane, 2004). This desire will certainly be realized if the succession process goes well (Barach & Ganitsky, 1995). Unfortunately, not all of the succession runs as expected. The previous research has shown that there are only 30% of the family firms which survive after the handover from the founder to the second generation (Hall & Mattias, 2008; Lansberg, 1999; Morris *et al.*, 1997) and only 10% 15% of them survive after the transition to the third generation (Beckhard & Dyer, 1983). It can be said

that this condition generally applies worldwide, including in Indonesia (Lee, *et al.* 2003; Susanto, 2007). This is also confirmed by Kodrat & Gunawan (2008) whose findings states that in Indonesia, 2% of family firms which still survive to this day was built between the years of 1932-1943; 3% of them was built between the years of 1944-1955; 10% was built in 1956-1967; 24% was built in 1980-1991; and 37% was built after 1992.

As described above, the levels of sustainability of the family firm is low due to several factors. Among of them are the lack of succession planning (Dickins & Sarbey, 2011; Wade, 2012), the lack of attention in the transfer of knowledge from predecessor to the successor (Hatak & Roessl, 2011), the differences in the family interest that affect the business operations (Birley, 1986; Handler & Kram 1988; Ibrahim & Ellis, 1994; Rosenblatt *et al.*, 1985), the absence of potential successors involved in the company (de Massis *et al.*, 2008), and the inequity of the predecessor to his successors who are either directly involved in the company or not (Nawrocki, 2005).

The succession which fails for many factors indicates that succession is not a simple problem. Instead, succession can be regarded as a complex and challenging process. Therefore, it is not an exaggeration to say that the succession is a multi-perspective study (Collins, 2011), which are divided into 3, namely the individual perspective, organizational perspective and family perspective. Meanwhile, Stavrou (1999) generally argues that some of the factors that influence the effectiveness of succession are: personal factors of the successors, families, businesses and markets.

### **The Transfer of Knowledge in the Family Firm**

The knowledge transfer is an integral part of the succession process in the family firm. Moreover, it is regarded as the foundation of the entire process of succession (Higginson, 2009). Therefore, the knowledge has already been transferred from the predecessor to the successor long before a formal succession took place (Cabrera-Suarez *et al.*, 2001). Basically, the transfer of knowledge includes two measures, namely the transmission (sending or sharing knowledge to the potential recipient) and the absorption by a person or group. Although the process of transmission and absorption of knowledge has taken place, it would have no value if the new knowledge absorbed is not directed to change in behavior or development of new ideas which leads to new behavior of the recipients. It means that the goal is not simply transmit and absorb knowledge from one party to another, but rather to increase the ability of an individual or a group to do something as well as the value.

From the various definitions of knowledge (see for example: Firestone, 2001; Hicks, *et al.*, 2006), it can be said that knowledge is a justified personal belief that

can increase a person's capacity to take effective action (Alavi & Leidner, 1999). This definition affirms that knowledge is not an organizational property but is only in the mind or embedded in a person (Nonaka, 1991). Meanwhile, Nonaka & Takeuchi (1995) differentiate knowledge into two: tacit knowledge and explicit knowledge. Tacit knowledge is knowledge or experience that is obtained through activities which is carried out daily in doing a certain field of job. This knowledge would fade away as the person is unwilling to transfer knowledge and to document it well in the form of hard / soft copy. Meanwhile, explicit knowledge is related to how knowledge is well documented, so it can be stored perfectly and does not disappear as the knowledge owner leaves the firm or dead. The media used to store explicit knowledge can be hardcopy or softcopy.

Tacit and explicit knowledge raise a dilemma for the company, which is called the paradox of tacit and explicit knowledge (Jassimuddin *et al.*, 2005). Tacit knowledge has advantages because it is ambiguous, elusive, and difficult to be duplicated so that it turns to be the safest and the most strategic knowledge (Spender, 1995). The disadvantage of tacit knowledge is that it is difficult to be communicated to others and to be documented so that it is difficult to transfer (Nawawi, 2012). Thus, the company faces the risk of losing knowledge when the knowledge owner leaves the company (Jassimuddin *et al.*, 2005). On the other hand, explicit knowledge is knowledge which has been codified so that it is easily communicated, stored and transferred (Jassimuddin *et al.*, 2005). Explicit knowledge can be accessed and applied by any person within the company (Nawawi, 2012). The weakness of explicit knowledge is that it is risky to be imitated by the competitors and the companies will lose their competitive advantage. In addition, the codified knowledge requires a high cost. The misunderstandings in managing explicit knowledge will result in excessive documentation (Jassimuddin *et al.*, 2005).

This dilemma brings up idiosyncratic knowledge which is a collaboration of tacit and explicit knowledge (Jassimuddin *et al.*, 2005). Jassimuddin *et al.* confirms that the idiosyncratic knowledge allows the company to take the advantage of tacit and explicit knowledge while reducing the risk of both. Idiosyncratic knowledge allows the transfer of knowledge in a more convenient and safe from the risk of being imitated by competitors. This knowledge allows the transfer of knowledge explicitly, but it cannot be fully understood by people outside the company. It is because tacit component is embedded in a corporate culture and only internal members of family can access it (Jassimuddin *et al.*, 2005).

Knowledge transfer in the family firm is not a mechanical process, but rather an interactive process which embed in the recipient or information resources. The reason is that knowledge of the family firm is idiosyncratic - specific personal knowledge (Lee *et al.*, 2003; Cabrera-Suarez *et al.*, 2001) and only family members

or trusted people can access it. Hence, knowledge transfer will occur when resources (predecessors) have a high desire to share their knowledge and anything about the company to the recipients (successors) (Trevinyo-Rodriguez, 2006).

In order to understand the effectiveness of knowledge transfer in the family firm, it needs a great attention to the following factors: relations factor (Higginson, 2009), family tie (Cabrera-Suarez *et al.*, 2001), and a strong trustworthiness (Carlock and Ward, 2001). The personal relationship within the family firm is stronger than in non-family firm. This relationship is also reinforced by a high level of trust among family members (Trevinyo-Rodriguez, 2006). Relationship and trust is an important factor in the process of knowledge transfer (Szulanski *et al.*, 2004). The levels of trust influence the behavior of knowledge recipient (Szulanski *et al.*, 2004). A strong relationship between children and parents is one of the social capitals. The development of social capital among family members depends on the presence of parents (predecessor) physically, and the attention given to the next generation (Carlock and Ward, 2001). Therefore, the trust, the availability of time, and the desire to share knowledge will enhance the process of knowledge transfer and affect the behavioral change of the recipients (Trevinyo-Rodriguez, 2006).

On the other hand, the process of transferring knowledge in the family firm also has some challenges such as: the characteristics of knowledge itself, the source of knowledge, recipients of knowledge and the context in which knowledge is transferred (Szulanski, 1996). *First*, a factor that renders difficult the process of transferring knowledge based on the characteristics of knowledge is ambiguity (causal ambiguity) (Szulanski, 1996) arising from the existence of tacit and idiosyncratic knowledge that cannot be fully understood by people outside the company (Jassimuddin *et al.*, 2005; Trevinyo-Rodriguez, 2006; Lee *et al.*, 2003). In addition, the nature of the knowledge which is usually embedded to its owner (stickiness) (Szulanski, 1996) led to the incompleteness of knowledge being shared (Chirico 2008). Stickiness is also associated with the tacit knowledge which is difficult to be communicated and documented so that it cannot be transferred easily (Nawawi, 2012).

*Secondly*, the predecessors basically want to transfer all knowledge to the successors because of the desire to preserve the company and to pass it down from one generation to the next (Trevinyo-Rodriguez, 2006). Family ties and trust are factors that support the effectiveness of process of knowledge transfer among generations in the family firm (Cabrera-Suarez *et al.*, 2001). Yet, some conditions state otherwise, where the predecessors have low motivation in transferring knowledge. The reluctance of predecessor to transfer knowledge is due to the fear of losing superiority in the family firm, the reluctance to take time and resources

to support the process of transferring knowledge, the low level of trust towards the successor, and the doubts over the capability of the successor (Szulanski, 1996).

The third factor which can affect the process of transferring knowledge is the characteristics of the recipient such as age, gender, lack of motivation, and lack of ability to absorb knowledge (absorptive capacity) (Szulanski, 1996). The big age difference between predecessors and the potential successors brings up problems related to the determination of the successor and the predecessor's unpreparedness to handover the firm (Higginson, 2009). This leads to a situation where the successor is ready and intends to take over the company while the predecessor is not ready to relinquish his role within the firm (Higginson, 2009).

The lack of motivation from the recipients (successors) arises when they refuse to accept the knowledge of their predecessors. Meanwhile, the lack of motivation could lead to the reluctance to learn, pretended reception, secretly sabotage, or refusal to implement and use new knowledge (Zaltman *et al.*, 1973). The lack of competence to absorb the knowledge means that the successor is not able to exploit the knowledge from predecessor (Cohen and Levinthal, 1990). This competence is needed so that the recipient is able to assess the knowledge, assimilate, and implement new knowledge (Szulanski, 1996). The ability to store knowledge is related to the ability of the recipient to institutionalize the use of knowledge to the firm (Szulanski, 1996; Cohen and Levinthal, 1990).

Fourth, the effectiveness of knowledge transfer is also exposed to the factors of environmental organization. The organizational drift and difficult relationship will inhibit the process of knowledge transfer from the predecessor to the successor (Szulanski, 1996). The process of knowledge transfer is inherent to the characteristics of the company. The family firm is called as prosperous when it supports the process of knowledge transfer, and if otherwise is called drift (Szulanski, 1996). The number of successors also influences the process of knowledge transfer. The predecessor must determine who will be the successor, and the position of other children in the company (Kimhi, 1995). This will potentially lead to conflict and division in the family.

## THE KNOWLEDGE TRANSFER IN PT KHARISMA JAYA

### The Overview of PT. Kharisma Jaya

PT. Kharisma Jaya founded by Mr. Harsono in 1990 is a private company which is engaged in aquaculture and shrimp farming. The company is located in Kendal regency, Central Java. Its main product is black tiger shrimp (*penaeus monodon*). However, due to certain considerations, the company now turned to farm *vanamei* white shrimp (*litopenaeus vannamei*). This species of white shrimp is more resistant

to disease. Moreover, white shrimp has higher density and grows better than tiger shrimp. All productions are exported to other countries such as Japan, USA, Australia, Hong Kong, Singapore and some European countries. Japan is the largest consumers since around 90% of total production is exported in that country, and the rest (10%) is exported to countries outside Japan.

Although PT Kharisma Jaya is a limited liability company, it is worthy to be called as a family firm as all of the firm's shares are owned by Harsono's family who is the founder as well as the owner and manager of the company. Likewise, the key company positions are occupied by immediate family members including Joni – the second son of Mr. Harsono and Mrs. Inge who is prepared to be the successor of the company. When interviewed by the research team, Mr. Harsono admitted that he at first run the shrimp farming only for subsistence and for giving jobs to his immediate relatives. It was after him graduate from high school, he had the opportunity for intern working at Fisheries Company owned by his uncle. From this experience, Mr. Harsono saw an opportunity to develop shrimp farming because the domestic demand of shrimp was very high and its price was much higher than the fish in general. Then, Mr. Harsono used his personal capital to rent a pond as an experiment in Tugu Semarang sub district.

As time goes, his shrimp farming was going well. The company was originally a limited partnership company - CV Kharisma with familial management and was managed informally. In 1999, it was upgraded to be a limited liability company - PT Kharisma Jaya followed by formal organizational structuring, recruitment of professionals who were expert in shrimp farming and division of labor was implemented appropriately. However, the firm was still led by Mr. Harsono. Meanwhile, the field of business which originally consisted of three divisions - shrimp farms, aquaculture and hatchery, now, focuses only on farms and aquaculture. The hatchery division was forced to close because technically it is too complex, so it is not economically profitable.

### **The Succession and the Process of Knowledge Transfer**

When the research was conducted in mid year of 2014, Mr. Harsono, 64-year-old, has already reduced his involvement in the daily activities of the company. Now, Mr. Hartono puts himself as a mentor and handovers some of the most important decisions of the company to his second son - Joni. In other words, PT Kharisma Jaya has carried out the succession formally. However, this succession process does not happen instantly. Before occupying an important position like today, Joni admitted that he has involved in the company since about 20 years ago when he was in junior high school. *"At first, I just accompanied father to look around the pond,"* said Joni. The same was done by his brother, Andy. Whereas, Angel, the

youngest child of Mr. and Mrs. Harsono, does not much involve in the farm since she is a female.

Like most Chinese, Mr. Harsono wants their children to enter the business world. *"I truly inculcate the spirit of entrepreneurship to my three children"*, said him. Related to the sustainability of PT Kharisma Jaya, Mr. Harsono as founder does not impose his three children to become the successor. *"I'm trying to be open and free them to be what they want. The most important is that they should be responsible and take the risks for what they do"*. It is reinforced as Joni stated *"Daddy is firm and give their children freedom"*. Actually, Mr. Harsono wants Andy as the first child to inherit the company. Mr. Harsono recognized, *"I actually hope Andy to be the successor because he is the eldest child. However, ..... I do not force him since I built this business in order to help families and people around"*. Unfortunately, after graduating from a university in United State, Andy chose his own career to run the culinary business in that country and did not return to Indonesia. Likewise, Angel also did not return to Indonesia after her completion of studies in United State. Thus, it is Joni who becomes the successor. Although he was initially not interested in the shrimp business, he did not have the heart to let her father confined to the business as Mr. Harsono was getting older. Here is his statement:

*"Actually, I'm not interested in becoming the successor. Yet, I feel pity that none of us continues the business which was initiated from the beginning. It is because I have experienced the hard work. Daddy is a person who never let others in trouble, as long as he can do it by himself. This principle is instilled to all of his children."*

Joni's feeling about the future of PT Kharisma Jaya leads him to be more serious to understand deeply the ins and outs of the shrimp business, especially after he was graduated from the Singapore Management University (SMU). Joni explicitly said *"I have started the business from the bottom, although father has taught me and there is always development in the shrimp business"*. It confirms that Joni has started learning the shrimp business long before graduating from high school. As described previously, Joni has started the business since he was in junior high school. In other words, the succession process in which the process of knowledge transfer also appears is a very long process, very complex and challenging due to the constantly changing of business environment. Although it was not expressed explicitly in the interview, Mr. Harsono necessarily learnt how to maintain the quality of shrimp from others, especially the professionals he recruited. It was done before he transferred the knowledge to Joni because Mr. Harsono realized that he was just high school graduate who did not have a thorough knowledge of the technology of shrimp farming scientifically.

To obtain a more detailed illustration related to the complexity of the process of knowledge transfer, the following descriptions will be grouped into 3 namely:

(1) the transferred knowledge, (2) the transfer methods being used, and (3) the transfer mechanism.

### **(1) The Transferred Knowledge**

It could be said that knowledge transfer has been done far before there is a decision of who will inherit PT. Kharisma Jaya. The first knowledge transferred by Mr. Hartono to the three of his children is the family values that over the years become Mr. Harsono's guideline in passing the family life "... .. *I teach noble values since the childhood so that in the future they can be responsible for their work*". "*I do instill the entrepreneurship spirit to the three of them*". These family values become the foundation to carry out business activities. The specified values are "Professional and Totality" which includes: a commitment to maintain consumers' trust; honesty to maintain the credibility of the firm; integrity and ethical leadership in serving all stakeholders; courage and determination in deciding business decisions; energetic and enthusiasm to keep the motivation; and set goals and targets that are not deviated from the initial goals. As a philosophy of life, this value transfer does not stop when the three of Mr. Harsono's children has been growing up as adults and enter the working world. But, it continues to be instilled through a variety of mechanisms till those values actually become a guideline of his children's life.

The second knowledge being transferred is the knowledgeable about the products that includes the knowledge associated to the composition of products, quality standards and how to make a product or service. Knowledge related to the composition of products was transferred by the predecessor to the successor in the form of composition, formulation, or formula. This knowledge is specific, not owned by other parties except the predecessor. In addition to the composition of the product, the predecessor also transferred the knowledge related to the quality standard and how to control it. The predecessor tried in order that the quality of products and service quality can last from one generation to the next. Knowledge of the standards of quality that is transferred by the predecessor to the successor still exists in the form of tacit knowledge and explicit form. Mr. Harsono himself obtained this knowledge through two sources i.e. based on the personal experience after years of managing the shrimp business and external sources i.e. come from professionals who work in the firm. Joni recognizes that the business of shrimp is not an easy job. Therefore, in addition to learning from his parents, he should also learn from the professionals who work in the firm. Here, Joni's statement describes it.

For this shrimp farming process, it is still assisted by professionals, but I also always learn and ask. Sometimes sharing with father and partner is indispensable to find new things. I have to really learn since this shrimp business is difficult,

The third knowledge being transferred is the knowledge related to the management or the internal firm management that includes knowledge of the finance and labor management, and knowledge of the business and industry which includes: business risk, corporate partners, business environment and competition, and knowledge of trends and business cycles. Mr. Harsono as the leader of the family and the leader of the companies who tends to be conservative firmly reminds his prospective successors that the financial problem is a problem that can result in family problems and the firm problem, if it is not managed properly. Whereas, related to the labor, Mr. Harsono reminds that a leader will always deals with lots of different people's nature and character. Regarding the business world, Mr. Harsono teaches that the business world is always uncertain so steadiness is needed and full of calculations and also to be not easily wobbled when trends were declining. Related to this, Mr. Harsono expresses as follows:

"When Joni told that he wanted to help this business, I assisted him correctly. I teach Joni from little things, till he is really able to determine his own decisions. Now, Joni can run his business on his own and I just keep an eye on it. Joni is more thoroughly than the older brother or younger sister, and I see Joni has an instinct. Therefore, he can simply understand the people's body language style and character. In addition, he is adept at interacting with the buyer-supplier, although Joni is less in mastering the technical process of shrimp. As time goes by and his fervor in learning to manage the business, there is a positive impact on this business"

The last knowledge taught by Mr. Harsono to his successor is a soft skill. In this case there are two types of soft skill that have been always emphasized by the predecessor to the successor i.e. How they should negotiate both in the sphere of family and with other parties in the business affairs. The principle is that all parties must feel a win – win-win solution by orientating the way of discussion. Second, addressing consumers is also an art of its own. The predecessor has experiences in facing a wide range of consumers. The experience creates the predecessor to understand consumers' character being encountered and how to handle it. Knowledge of the characters and how to deal with these consumers is transferred by the predecessor to the successor who does not experience the process before. The predecessor transfers the knowledge so that the successor is able to handle the consumer appropriately and will not disappoint loyal consumers who have been served by the predecessor. Regarding Joni's ability to interact with a third party, Mr. Harsono expresses as follows:

I see Joni has an instinct. Therefore, he can simply understand the body language style and character of the person. In addition, he is adept at interacting with the buyer-supplier,

## **(2) Transfer method**

Knowledge transfer basically involves two parties namely the source and the recipient of the knowledge. In this study, the recipient of the knowledge i.e. Joni

as the next generation gains the knowledge from two different sources namely both internal and external sources. What is meant by internal sources i.e. knowledge that comes from families especially Mr. Harsono – generally tacit knowledge and external sources are the knowledge that comes from outside the family for example from professionals and reading sources – generally explicit knowledge. In terms of the process of knowledge transfer originating from the internal, predecessor and successor use several methods including: a) orally; b) providing examples for the successor; c) making room for the successor to the practice; and d) conducting a trial. In the other party, the successor receives the knowledge from the predecessor in various ways such as: a) seeing; b) listening; and c) practicing what is taught by the predecessor to the successor.

Since the predecessor rarely has a record of his knowledge, then the predecessors do so orally in the form of stories or a referral to a successor in transferring their knowledge. This is usually done at the time of family occasion, e.g. at the dinner table. Transfer knowledge orally is also done in a way to discuss the work done by successors, so that it can be said that the predecessor becomes a peer discussion and a consultant for the successor. This is done when the two parties face a real problem in the field. Therefore, a misunderstanding often occurs during the discussion. *"Sometimes a misunderstanding used to occur between Joni and me"*, Mr. Harsono said. In addition to using oral, the predecessor also combines the transfer method with giving examples, so that the successor can observe what is done by the predecessor. After the successor has seen and observed what is done by the predecessor, the next step is that the successor practices what he had seen ... .. *sometimes I give him small tasks. During Joni's high school, I gave him responsibility to record the cash flow, production materials, labor salary data, more administrative things, and gradually, Joni can interact with buyers or suppliers.* In the early phase of practicing knowledge, the successor imitates what is done by the predecessor. In addition to practicing, the predecessor also makes room for the successor to conduct trials. The successor does practices and trials under the supervision of the predecessor. The successor tries to do what he has learned while exploring new things related to his work.

### **(3) Transfer mechanism**

Based on the results of interviews with participants, knowledge transfer mechanisms held in PT Kharisma Jaya covers the process of knowledge transfer which is planned and phased. Phases of the process of knowledge transfer are divided into two, namely the active initiation process and the process of implementation. From the beginning, the predecessor concerns the importance of knowledge transfer to the successor generation so that they could manage the

firm in the future. Therefore the predecessor plans a process of knowledge transfer well, with a systematic scheme and clear time reference. The predecessor plans the time when the transfer process begins and the phases that must be passed by the successor. Results of the study show that the process of transferring knowledge between generations in PT Kharisma Jaya goes gradually and slowly. Phases of learning are tailored to the level of the successor's understanding. The knowledge transferred by predecessor starts from the easy to the difficult one. Responsibility being given is ranging from the small to the things that are getting big. The transferred knowledge is ranging from technical issues and continued to things related to firm strategy and decision making. Gradually Joni was also given the responsibility formally starting from the Predecessor Assistant, Division Manager and the last is the Leader of the Firm.

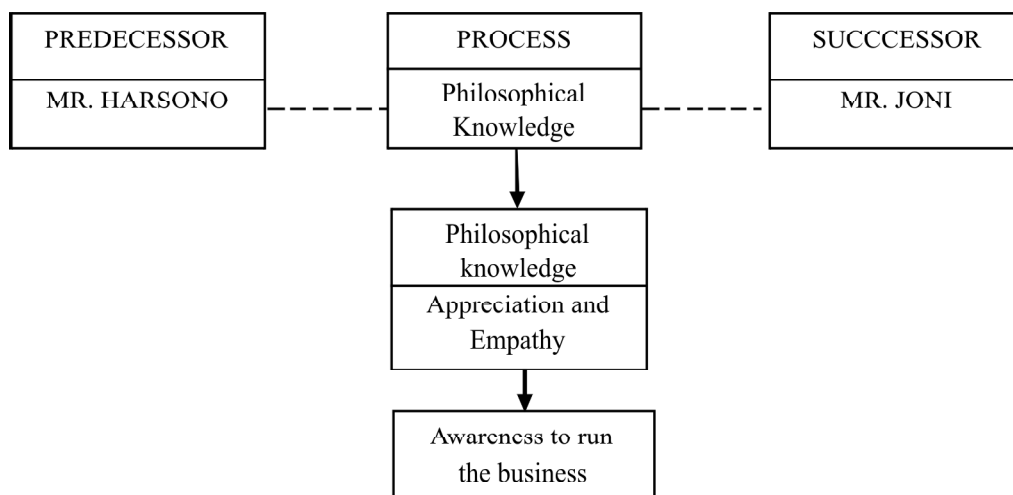
Initiation to do knowledge transfer is generally conducted by the predecessor just to introduce a prospective successor to the business environment. At this phase, the predecessor does not teach anything otherwise let the successor study independently so that at some point begins appearing an interest and starts to ask the predecessor. That time the predecessor starts to be initiative actively teach things that are considered necessary. Next the predecessor starts to give the successors small tasks in accordance with his capacity. More importantly, when the successor successfully runs the tasks Mr. Harsono is not disinclined to give reward so that the successor becomes more interested and actively involved in business activities. However it does not mean that Mr. Hartono let his children run business activity without an adequate formal educational background.

## DISCUSSION AND CONCLUSION

In general, this paper discusses the process of knowledge transfer at the family firm as a part of the predecessor effort to prepare the successor to be the leader of the firm. Results of the study show that knowledge transfer has been done far before over generations formally planned and implemented. However it should be understood that the transfer of knowledge at this early phase may not be directly related to the business activities since the knowledge being transferred is in the form of family values that become the foundation of the family in the living. However these values are the precondition of the formation of entrepreneur/business culture in a family (Nemiletsev, 2013). The argumentation is that if a family is very appreciative to the business activities, the family values then will be translated into the family norms and practiced in business life (Handler, 1989). Therefore the family values are transferred to the following generation as early as possible. The goal is to create awareness of the successor generation about what happens within the scope of the family. In terms of the family runs business

activities, it is expected that the next generation is aware that his family is a business family that should be business-behaved and minded (Longenecker & Schoen, 1978). It cannot be denied that Joni's awareness and commitment to continue his parents' business is the result of the transfer value that is acquired since his childhood. This awareness also raises compassion, empathy and appreciation of the parents' hard work. Ultimately the desire to follow his parents' footstep is not denied (see Figure 1).

**Figure 1: First Phase of the Knowledge Transfer – Philosophical Knowledge**



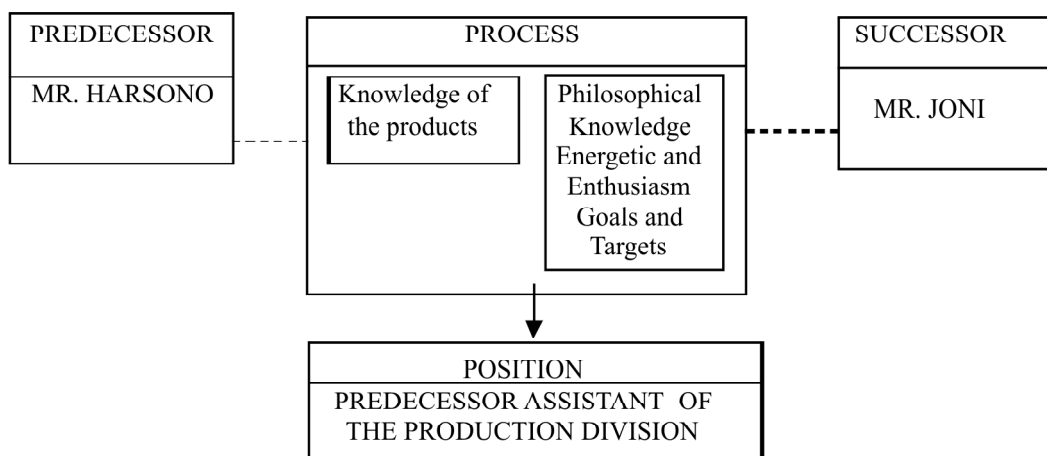
The awareness of the next generations to follow their parents' footsteps running the same business is a critical point in the succession and knowledge transfer in the family firm. *First*, the existence of the awareness of the successor generation at least gives hopes of the sustainability of the family firm to cross the generation limit (Aldrich & Cliff, 2003; Astrachan, Zahra & Sharma, 2003) because as it said by Harveston, *et al.* (1997); Davis & Harveston (1998) and Miller & Le Breton-Miller (2003), virtually all of the family firm founders definitely want these companies later do not fall into any other party except to family members especially children of the direct descendants. Something that might still be the problem is that the awareness of the successor generation had not been definitely accompanied by the required competencies. To overcome this problem and to ward off concerns, de Massis *et al.* (2008) who state that one of the succession failure causes is that because there is no potential successor, then the knowledge transfer becomes a necessity. This supports the statement of Higginson (2009) that the knowledge transfer is the foundation of the entire transfer process in the family firm.

*Second*, the awareness of the successor generation is a good news in the knowledge transfer process because it is believed that knowledge transfer will be much more effective when the successor is ready to learn (Fiol & Lyles, 1985). On the other hand, the awareness of the successor generation also motivates the predecessor to bequeath all the knowledge he has ((Trevinyo-Rodriguez *et al.*, 2006). The reason is the readiness of the prospective successor will strengthen family ties and rise a strong relation (Higginson, 2009) as well as increase the predecessor's trust to the successor (Cabrera-Suarez *et al.*, 2001). Here is what is done by Mr. Harsono i.e. transferring tacit knowledge and idiosyncratic of his experience after years of running the business to Joni who is believed to be ready to receive the business knowledge. However, knowledge transfer does not take place casually (Carlock & Ward, 2001) but rather through planning, and not instantly but rather through a gradual process which is not linear. This phasing is in line with the succession stages as expressed by Longenecker & Schoen (1978).

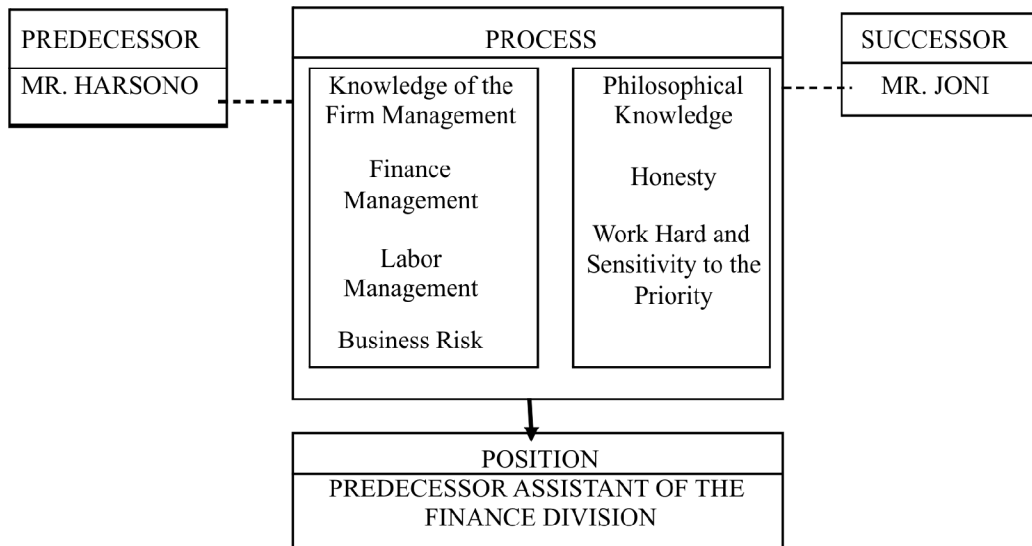
Business knowledge that is tacit in nature and idiosyncratic transferred from Mr. Harsono to his son, Joni and the responsibility that should be taken by Joni as a form of learning can be seen in Figure 2, 3 4 and 5.

From the abovementioned figures (Figure 2 – 5) it appears that the knowledge transfer from the predecessor to the successor which generally used informal methods runs gradually after the careful planning done previously. This phasing is aiming to match the need and consider the capacity of the knowledge recipient. Related to this, Szulanski (1996) states that the mechanism of the process of knowledge transfer is generally follow the phases of initiation, implementation, rump-ups, and integration. Although in practice the process of knowledge transfer that occurs in PT Kharisma Jaya is not always linear, sometimes goes forward and

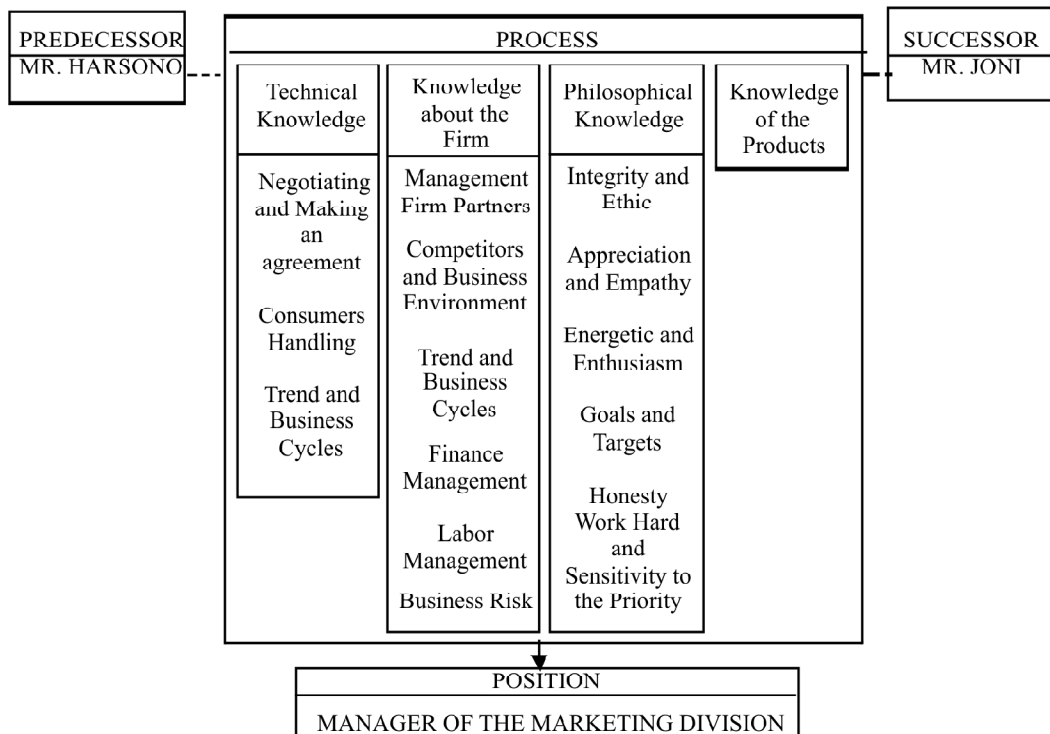
**Figure 2: Second Phase of the Knowledge Transfer – Knowledge of Products**

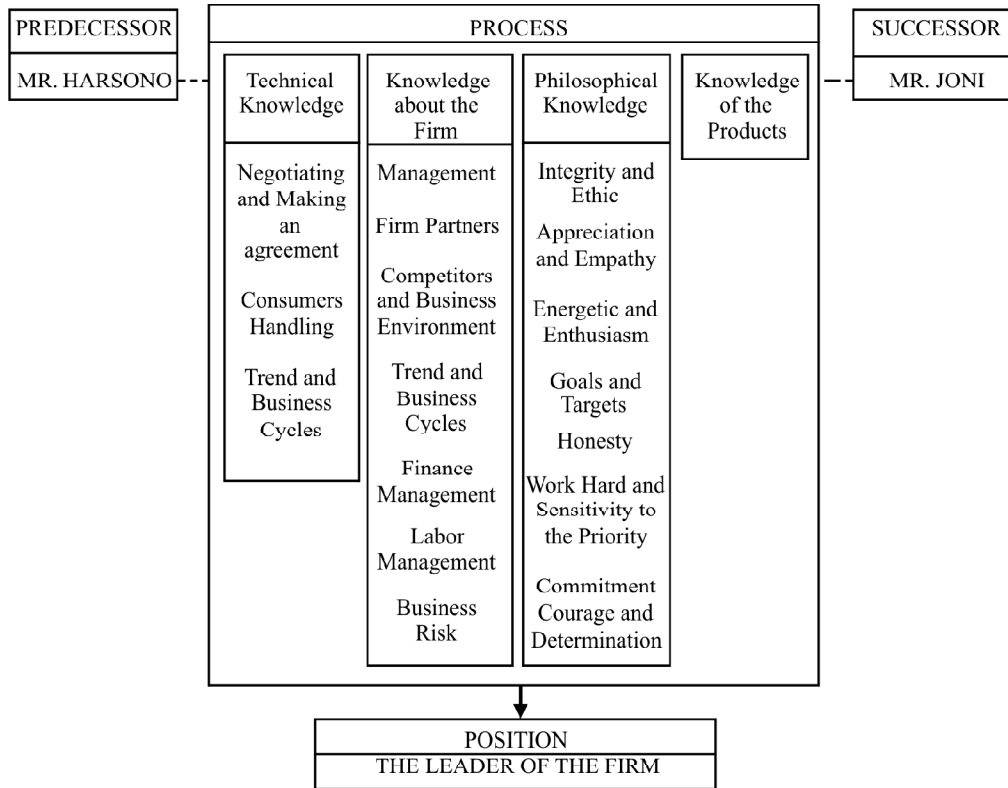


**Figure 3: Third Phase of the Knowledge Transfer – Transfer of Finance Management**



**Figure 4: Fourth Phase of the Knowledge Transfer – Transfer of Marketing Management**



**Figure 5: Fifth Phase of the Knowledge Transfer – Being the Leader**

backwards, and sometimes are spiraling (Nonaka, 1991) adjusts the time and space – the so-called Ba (Nonaka & Konno, 1998; Nonaka *et al.*, 2000; Nonaka & Toyama, 2003), within the particular confines of the pattern expressed by Szulanski (1996) also applies. Gradually the transferred business knowledge starts from a specific knowledge – i.e., knowledge of the product (see Figure 2) and ending with the knowledge of the business as a whole (Figure 5).

From the figure of the knowledge transfer process it also seems that each phase will always end with the giving greater responsibility to the successor. For example, in Figure 2 the transfer process will be ended by placing Joni as the Predecessor Assistant of the Products Division. In Figure 3 Joni occupies the position as the Predecessor Assistant of the Finance Division; Figure 4 ends with the placement of Joni as the Marketing Manager and the last, Figure 5 Joni becomes the Leader of the Firm while Mr. Harsono puts himself as a Mentor. The granting of such responsibility is intended to give appreciation and reward, and to test whether the process of knowledge transfer has been running in accordance with the expectation. From the time, it is not certain how long each phase will end. Likewise,

methods and mechanisms of transfer will always adjust the running conditions. The consequence is that the process of knowledge transfer is very slow running impressed.

Other things need to be paid attentions in the process of knowledge transfer is even though so far the transfer process impressed to be running effectively because it has been planned and conducted phase by phase it does not mean that there is no problem during the process is taking place. Misunderstanding, even though it has not yet resulted in a conflict furthermore family conflicts and business conflicts, as purported by the successor generation that it will always arise and therefore it must be resolved soon in order that it will not impede the effectiveness of the knowledge transfer. Among the causes are due to the knowledge transfer in the family firm generally are personalized and context specific hence it cannot be denied if the individual factors contribute greatly to the occurrence of misunderstanding. The difference in educational background, the gap between generations, the difference in leadership styles and differences in the capacity are identified to be the cause of misunderstandings (Szulanski, 1996). It is a fortune for both the predecessor and the successor generation who is willing to accommodate the difference in the thinking of each other so that misunderstanding does not give negative impacts. This is in accordance with Handler's opinion (1991) who states that the factor of key success of the firm family is mutual respect and understanding between the predecessor and the successor.

The second problem comes from the knowledge being transferred. As outlined earlier, most of the transferred knowledge is tacit knowledge and idiosyncratic which characteristics are difficult to be transmitted hence, though the process of knowledge transfer occurs, but not 100% transfer of knowledge owned by someone can be transferred and one who receives the knowledge can not 100% get the knowledge. In the language of Szulanski (1996), this condition is called stickiness in the tacit knowledge i.e. the attachment of the knowledge to the source. Therefore in order that the successor gains the expected knowledge then learning from external sources need to be carried out as a balancer (Varmanaki *et al.*, 2003).

The overall conclusion that can be drawn from this exploratory study is as follows:

1. Knowledge transfer in the family firm is an integral part of the succession or over generations. It could even be said that knowledge transfer is a pre-condition to the effectiveness of the succession which is usually measured by the sustainability of the family firm in the next generations.
2. In general there are two groups of knowledge transferred from the predecessor to the successor generation i.e. philosophical knowledge

(family values) and the business knowledge. Philosophical knowledge is tacit knowledge and idiosyncratic; while business knowledge is tacit and explicit knowledge although in this case the majority of knowledge is tacit. Philosophical knowledge functions as the foundation for the continuation of the process of business knowledge transfer.

3. In this paper it is noted that the awareness or the openness of the prospective heir become the critical point for the effectiveness of knowledge transfer and succession of the family firm. Or in other words the readiness of the prospective heir to learn would be the key to the next process
4. This paper confirms that the process of knowledge transfer though it is properly planned it always runs slowly because it has to go through the process of gradually adjusting the capacity of the knowledge recipient
5. Informal transfer method where the direct contact between the predecessor and the successor generation often leads to the misunderstanding between them so that it may impede the effectiveness of the knowledge transfer.

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