6 Family firms and their regional ties

A bond made for the future?

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Introduction

The overlap between family and business represents a common characteristic for a large number of organisations across the world. Family firms are those organisations in which family is involved in the ownership and management of the firm, with the intention to keep the business within the family across generations (Mandl, 2008; Miller, Le Breton-Miller, Lester, & Cannella, 2007). The family component distinguishes these firms from any other type, with regard to the way families manage and govern, make decisions, allocate resources, and interact with their regional contexts (Basco, 2017; Soleimanof, Rutherford, & Webb, 2018; Stough et al., 2015).

The unique interaction between family firms and their environment is influenced by the family's focus on firm longevity, and their decision-making is led not solely by economic principles, but also by the strong personal commitment of owner-managers and their feelings of responsibility toward their employees and home region (Zellweger, Eddleston, & Kellermanns, 2010). Research agrees that it is this "regional familiness" (Basco, 2015) or "community citizenship" (Baù et al., 2019) of family firms that leads owner-managers to build long-term relationships with local stakeholders, which forges a particularly strong and mutually beneficial bond between family firms and the regions in which they are embedded (Baù et al., 2019; Bird & Wennberg, 2014). Additionally, since family firms are generally considered to be more conservative and risk-averse than non-family ones, and thus more focused on their home market than international ones (Gomez-Mejia, Makri, & Larraza Kintana, 2010; Hamelin, 2013), their regional commitment seems to be durable and uncontested.

However, the commitment of family firms to their regional context may vary across generations. For instance, in their study of Spanish manufacturing firms, Fernández and Nieto (2005) showed that second or subsequent generation family firms are more involved in international markets than first-generation ones. Considering the potential differences in attitudes, interests, and qualifications between incumbent owner-managers and their successors, the research question arises as to whether the strong regional

bond of family firms persists across generations. Given that every family firm ultimately has to face the challenge of transferring ownership and management to the next generation and that the number of family firms looking for successors has been rising continuously across Europe in the last few years (Duh, 2012; KPMG, 2019), I wonder how succession affects the regional anchoring of family firms.

This chapter adopts a dynamic perspective and analyses the connectedness between successor generations and their regional context. By using a qualitative approach and through the lens of an institutional perspective, I explore case studies of successors in Basque family firms and analyse differences in the attitudes and behaviours between predecessors and successors. I observe that these differences lead to successors having weaker regional embedding than their predecessors. This weak regional embedding shows that transgenerational family firms are immersed in a regional dis-embedding process that could have positive or negative consequences for regional economic development.

Family firms and their regional and institutional ties

When analysing the linkages and mutual effects between context and family firms, research usually looks at the embeddedness of family firms in terms of the geographically constrained area where they are situated. However, beyond the spatial characteristics of context, relational aspects play a key role in influencing firm behaviour over time.

Family firms and their regional context

The literature usually highlights the positive effects of the links between family firms and their regional contexts (Gomez-Mejia, Basco, Müller, & Gonzalez, 2020). The assumption is that local embeddedness – “the involvement of economic actors in a geographically bound social structure” (Baù et al., 2019, 360) – favours contacts with customers and suppliers in a geographical area and thus facilitates access to both tangible and intangible assets such as a skilled labour force and localised knowledge, respectively (Baù et al., 2019). Existing research can be divided into two groups, depending on whether they analyse the effect of the region on family firms or, vice versa.

In terms of family firm contribution to regional economies, existing research has shown that family firms are conducive to economic and social development in their regional contexts in several ways. For instance, by contributing to the production and export of goods and services; providing jobs, professional training, and qualifications; and engaging in regional philanthropy (Basco, 2015; Bjuggren, Johansson, & Sjögren, 2011; Glückler & Suarsana, 2014; Memili, Fang, Chrisman, & De Massis, 2015). Across Europe, family firms constitute the economic backbone of regional economies: 85% of companies are family-owned, generating 70% of Europe’s GDP and employing 60%

of its workforce (Ernst&Young, 2014). Since family firms are often situated in peripheral areas, they also provide job opportunities in rural regions and thus act as a counterweight to the ongoing trend of urbanisation (Gottschalk et al., 2017). Taking these benefits into account, family firms' transgenerational continuity and regional embeddedness are essential for long-term regional stability in terms of employment, innovation, and the regional use of profits for investments and societal good (Daspit, Holt, Chrisman, & Long, 2016).

Studies looking at the effect of the regional context on family firms are usually based on the assumption that "family businesses are more embedded within the regional community than their non-family counterparts," and that this affects their strategic choices (Bird & Wennberg, 2014, 424). Research shows that by using their local connections, family firms enhance their socio-emotional wealth, gain localised competitive advantages, and benefit more from local embeddedness than non-family firms, especially in rural areas (Backman & Palmberg, 2015; Baù et al., 2019). Baù et al. (2019) even claim that being embedded in a rural context with tight social networks can counterbalance the potential negative effects that family involvement can have on firm growth. Along the same lines, Soleimanof et al. (2018) argue that it is precisely the embeddedness of family firms that makes them less dependent on the formal features and procedures of their regional contexts because they can access family resources, such as labour and capital, and use their personal connections to draw on social capital. Accordingly, family firms are able to thrive in resource-scarce and objectively less favourable regions as well (Bird & Wennberg, 2014). This evidences the importance of social relationships for the regional anchoring of family firms.

The importance of relationships, institutions, and time

To understand what makes a firm behave the way it does, not only must we consider a region's available assets, but also the structures of social relations in which agents are embedded and that influence their decisions and actions. The theory of embeddedness posits that the economic activities of individuals and organisations are determined by a system of relationship ties that facilitate or inhibit certain economic actions (Granovetter, 1985). Thus, an actor's behaviour is not always rational and profit-maximising oriented, but also informed by past experiences and institutionalised behavioural expectations (Glückler & Bathelt, 2017). Similarly, institutional theory postulates that organisations not only react to economic, market, and technical pressures but also to the social and institutional pressures of their surrounding environment, comprised of other organisations (Coraiola & Suddaby, 2018; DiMaggio & Powell, 1983; Suddaby & Greenwood, 2009). In this respect, the concept of the organisational field highlights that these pressures and normative expectations may not only originate from those organisations in the actual geographical proximity, but also from "those organizations that, in the aggregate, constitute a recognized area of institutional life" (DiMaggio &

Powell, 1983, 148). Thus, by interacting more frequently with each other than with actors outside the field, organisations within a field share common cognitions, meaning systems, and institutions that act as guidelines for their actions.

Defined as relatively stable interaction patterns that are based on mutual normative expectations on how to behave legitimately (Glückler & Bathelt, 2017), institutions are hard to identify in real-life interactions. However, the concept of relational infrastructure enables making institutions visible, based on the idea that “because institutions are means of providing regularity to behaviour, they are always underpinned by networks of persons” (Storper, 2018, 213). Although institutions are not reducible to their networks, it is these inter-personal and inter-organisational linkages that enable the communication and alignment of social norms and legitimate beliefs, and help visualise the establishment of corresponding interaction patterns as observable manifestations of institutions (Glückler, Punstein, Wuttke, & Kirchner, 2020; Storper, 2018). For example, Storper (2018) found that the more successful development of the San Francisco Bay Area compared to Greater Los Angeles was due to the former’s relational infrastructure, comprised of informal networks, elite leadership networks, cross-network connections, and organisational sites that facilitate and sustain such cross-over links. In applying the framework of relational infrastructure, Glückler et al. (2020) were also able to explain the otherwise inexplicable economic success of the German region of Heilbronn-Franconia, based on strong firm-internal bonds, disconnection in terms of work collaboration between firms, but cohesive non-business networks within the home region.

Thus, research so far has focused on identifying the specific relational infrastructures of regions with the purpose of understanding their regional economic performance at a given point in time. Despite these valuable insights, the role of time has received less academic attention (James et al., 2020; Sharma, Salvato, & Reay, 2014). This chapter, therefore, further elaborates on the notion of relational infrastructure by adding a dynamic perspective and by exploring how established relational infrastructures may change over time. The regional connections of family firms and their potential changes in the course of successions are well-suited units of analysis in this respect. In this sense, the research questions are as follows: *How does succession affect the regional connectedness of family firms? Do successors have different relational infrastructures than their predecessors due to different characteristics and experiences?*

Methodology

In order to analyse the effect of succession on the regional embeddedness of family firms, this research is based on qualitative case studies of second or subsequent-generation family firms in the Spanish Basque Country, a region that champions regional distinctiveness and cohesion.

The study region: many family firms and strong regional distinctiveness

The Basque Country¹ is characterised by successful and resilient economic development, a strong industrial base, and an extensive number of family firms with an increasing need to find successors (El Foro de Empresa Familiar, 2008). Family firms make up 70% of all enterprises in the region and account for two-thirds of its GDP and 80% of its workplaces (Christensen Zaracho et al., 2008). But not only does the Basque Country boast a high number of family firms, it also enjoys a pronounced regional autonomy and community, expressed through its own regional government since 1980, financial autonomy since 1981, and its own regional language, Euskera (Moso & Olazaran, 2002). Additionally, the Basque Country features a number of community-building institutions such as the practice of regularly meeting strongly connected childhood friends (*cuadrilla*) in the streets before dinner (*txikiteo*) or cooking together in a gastronomic society (*txoko*) (Hess, 2007; Ramírez Goicoechea, 1984).

Previous research has showed that Basque family entrepreneurs actively participate in these cultural activities together with their local community (Lenz and Glückler, 2020). Thus, the relational infrastructure of traditional Basque family firms can be described similarly to what Glückler et al. (2020) found for the region of Heilbronn-Franconia: little connection between firms in terms of collaboration, but a cohesive non-business network within the local community, and strong intra-firm relations due to pronounced family logics as guiding principles.

Data and methods: qualitative case study

In order to see if these characteristics also describe the relational infrastructures of Basque family firm successors, between February 2015 and May 2016, a total of 28 interviews were conducted with representatives of 16 family firms of the automotive and machine-producing sector. In each of the 16 cases, interviews were carried out with the successor and new owner-manager of the family firm, and, as far as possible, with his or her predecessor and/or a longstanding employee of the firm, in order to further validate successors' statements (see Table 6.1).

Table 6.1 Overview of interviews conducted

<i>Interview partners</i>	<i>Interviews</i>
Successors	16
Employees	9
Predecessors	3
Total	28

To learn from their experiences, I only selected those firms that had already completed succession within the last few years or were just in the process of handing the firm over to the next generation (see Table 6.2). The majority of cases analyse intra-family succession from the first to the second generation, and the predecessors were still either involved in business decisions or available as consultants, which made it easier for the successors to directly compare their expectations, attitudes, and ways of doing business with those of their predecessors. Three of the family firms in the sample turned into cooperatives, with the employees of the firm becoming shareholders, and only one firm was sold to external investors (non-family members).

The semi-structured interview guide scanned for organisational and personal facts such as education and work experience, and focused on the changes the successors had planned or already implemented within the firm and in their relationships with other firms, as well as on their ways and attitudes toward running the family firm. The interviews were done in Spanish and lasted between 60 and 120 minutes. They were recorded, transcribed, and translated. Afterwards, I coded and analysed the data using the MAXQDA software in a bottom-up, inductive approach, looking for patterns emerging from the data and across cases (Reay & Jones, 2016).

Table 6.2 Detailed overview of family firm interviews

<i>Case</i>	<i>Foundation</i>	<i>Generation</i>	<i>Employees</i>	<i>Succession type</i>	<i>Successor's education</i>	<i>Successor's prior work experience</i>
1	1962	2nd	280	Internal	Accounting	–
2	1963	2nd	80	Internal	Engineering	Spain
3	1969	2nd	50	Internal	Corporate Law	Spain
4	1992	2nd	18	Internal	Economics	Spain
5	1969	2nd	82	Internal	Engineering	Spain, US
6	1966	2nd	45	Internal	Business Administration	Spain
7	1946	3rd	680	Internal	Business Administration	Spain, US, Germany
8	1972	2nd	39	Internal	Engineering	Spain, US
9	1978	2nd	24	Internal	Engineering	Spain
10	1923	4th	47	Internal	Management	Spain
11	1987	2nd	32	Internal	Engineering, Management	Spain
12	1965	2nd	412	Internal	Business Administration	US
13	1981	2nd	74	Cooperative	Apprenticeship	–
14	2004	2nd	18	Cooperative	Engineering	–
15	1980	2nd	22	Cooperative	Engineering	Spain
16	1964	3rd	75	Sale	Economics	UK, US, India

Findings

The results of this study show that successors differ from predecessors due to their different educational background and previous work experiences. These different characteristics seemed to affect the internal structure of their firms in terms of professionalisation, decentralisation, and inter-firm relationships. Successors tended to be more open and customer-oriented, and showed a more proactive approach. Ultimately, successors seemed to have more, and be more interested in supra-regional linkages. These linkages are one of the reasons for their lower commitment to their regional contexts compared to their predecessors.

Characteristics of successors vs. predecessors

First of all, our analysis shows that successors and predecessors can be distinguished by particular characteristics. Predecessors usually did not have professional training and were often the founders of the businesses, either by necessity (lack of other alternatives in the labour market) or opportunity (after having worked in a similar firm in the same region, they found a business opportunity). In contrast to that, all successors in our sample had gone to university (except in one instance) and in most cases they studied engineering, economics, or business administration (see Table 6.2). Due to this fact, they can be described as white-collar workers who focus on managing the firm, but who lack the technical or product competencies of their predecessors. Even though some family successors had grown up with the firm and had worked in the factory on weekends and during holiday periods, many of them could not operate the machines anymore. They were only rarely seen on the shop floor – unlike their predecessors, who liked to be at the production site and work at the machines alongside their employees:

That's another one of my deficits. For example, my father had come from the workshop. He had no college education. My father was a machinist. So everybody respected him because: "This one knows what he's talking about." And he knew. And I don't know.

(Successor, Itsasondo, May 2015)

Additionally, as Table 6.2 also indicates, the majority of successors had worked in other companies before taking over the family firm, both in other Spanish regions and abroad, which was made possible by their higher education levels and knowledge of the English language.

Effects on the family firm

The aforementioned differences in successor characteristics have consequences for the internal organisation of family firms in terms of professionalisation and decentralisation. In accordance with common management

concepts, successors introduced business processes and management tools that, to their surprise, were not there before:

There was no strategy plan, no budget, no structure or training plan, no purchase manager, not even a board of directors. So I asked them: “How do you manage? How do you do [it]? How can you control anything?” – “Oh, we work, we do invoicing, we check it every month, and the more invoicing we do, the better for the company.” – “And what about the costs, and if you lose some money?” – “Ahh, at the end of the year we know if we lost or won.” Oh my God. [...] But I don’t want to make them look bad, I am not criticising. That system has worked, and it got us here. But we cannot continue like this.

(Successor, Zumaia, February 2015)

Along the same line, successors planned to reduce the number of family members working in the firm and to hire employees based on their professional skills instead. Because although the inclusion of family members provides firms with easy access to resources and networks, it comes at the cost of satisfying the social expectations of providing jobs for extended family members (Soleimanof et al., 2018), as one successor illustrates:

From 80 people in the company right now, there were 25 family members, so this is the policy. If a family member is there, you will always contract a family member rather than somebody from the outside. I think it was more so in the past, but we are still doing that. But now, it is reduced to 20, so we are reducing family members and hope for a more professional management.

(Successor, Asteasu, March 2015)

Similar to this, the leadership styles between the previous and the new owner-manager differ in that the latter seem to be more participative and willing to decentralise, asking for the advice of their employees and newly-founded boards of directors. Contrary to that, the predecessors’ leadership style was described as monolithic, taking care of every decision themselves:

My father’s way of working was very much centred on him. A very vertical organigram where “I decide everything.” And with everything, I really mean everything. “We’re going to paint the back door there, and I’m going to decide the colour.” I’m not exaggerating, it was absurd. The first [few] years we worked together, I struggled to find a path, an overall management principle, if there was one. For my father there was no path. It was work.

(Successor, Elgoibar, May 2015)

In some cases, successors even shared their leadership with a second manager – either to outsource all technical questions to him or her, or to separate daily business from more general decisions concerning the strategic orientation of the firm.

Effects on inter-firm relationships

These different attitudes about how to manage family firms also affect their interactions with other firms. In general, successors in our sample were found to be more outgoing and proactive in establishing new business contacts and more customer-oriented in contrast to the more reactive and product-oriented leadership styles of their predecessors:

We started to be closer with the customers. This was a big change, because in the past they didn't speak English so much, they were more waiting for the orders to come in. So they stayed here, and the orders came, and they manufactured. So suddenly we started travelling more and being more in contact with the customers, at business fairs, for example. We started to look at things more deeply, at the needs of the customers. To understand them a bit better – why are they buying from us, what are the reasons, these kinds of things.

(Successor, Beasain, February 2015)

Furthermore, successors were more open to seeking professional advice, knowledge, and other services from external partners, leading to more open business relations with consulting firms and intermediate organisations:

Maybe another characteristic of Basque family businesses, they are not so collaborative. They are very closed, very black-box style. They are very non-transparent companies, they keep to themselves. When I talk to my uncles, they say, "Ahh, why are you talking to this guy?" They don't like it very much if you are talking to competitors, or research centres, or whoever. They think they will copy our ideas, and we know exactly what we need, so why would we need these research centres. "Are they going to teach us how to do our product? We are the best in that." That's the state of mind. They are not very open to collaborate with research centres or these kinds of things.

(Successor, Zumaia, February 2015)

Effects on the regional ties of family firms

Regarding the geographical proximity of their business partners, all successors in our study reported a growing internationalisation in their relationships with clients, leading to a reduction in personal contact:

Our customers are further and further away. In the past they were very close, and now [they are] further and further away. You're giving all customers the same advice, the same product, but it's not as easy any more to just go next door. The importance of personal relationships is still the same, but the opportunity is less. In the past, when my uncles started, all the customers were within a distance of 20 km,

they would even deliver the product themselves with their own car, but I cannot do this anymore.

(Successor, Lazkao, February 2016)

Some successors still consider personal meetings important, as shown in the quote above, and they used the few opportunities for personal encounters to cook for their business partners in a gastronomic society. However, others prefer to separate their business and private lives and, accordingly, limit their business meetings to relevant matters only, reserving visits to gastronomic societies for their friends and family.

In contrast to their client relationships, family firms under the leadership of successors continued using mostly local suppliers. However, successors also signalled their readiness to substitute their local supplier relationships for more advantageous international ones:

For example, yesterday one of our customers was talking about a company from Asgoitia that sends the drawings, the plans, to China and in three days the pieces are here. And he was telling this as some kind of joke, but it was clear that it is not very well seen to send the work that might be done here to China or Morocco, for example. [...] At the moment, our suppliers are all here, in the Basque Country. But maybe we will have to change that, I am not close to that. We have to adapt to our customers and their prices.

(Successor, Elgoibar, March 2015)

This quote not only shows the successor's rather weak regional bond, but also the social pressure exercised by regional stakeholders to keep a close connection with the region. This social pressure that arises when family entrepreneurs live in the same area as their employees is also described by Block and Wagner (2014), who found that family ownership affects the social responsibility of family firms in the way that owners care about their reputation and about receiving recognition for the social activities they undertake in their local community. However, this kind of pressure seemed to be less effective with successors, who prefer to live in Bilbao or San Sebastián and commute to work in their rurally located family firms:

His [the predecessor's] mentality was: "I want to live quietly when I leave the house. And half of the employees are from Tolosa, and half of their families are from Tolosa. If I go to a bar, I meet half of them. I don't want to go to the bar and have stones thrown at me. Now, the successor does not live here anymore."

(Employee, Belauntza, April 2016)

The above quote is a good illustration of the need to appear legitimate and fulfil the social expectations of interaction partners. However, successors

and their predecessors seemed to belong to two different organisational fields when it comes to determining legitimate behaviour. While predecessors were concerned about the reactions of regional stakeholders, successors seem to be more aware of the normative expectations of an international community that is bound together by their professions as engineers or economists, for instance. Due to these different connections, the reference group sanctioning non-compliant behaviour is not the local community any more, but international clients and former colleagues working in other companies, most of them located abroad. Successors, as family entrepreneurs, still want to be legitimate, but because their interaction partners have changed, predecessors and successors have different sources of legitimacy.

Discussion: on the road to regionally dis-embedded family firms?

This study highlights the importance of interpersonal and inter-organisational linkages for understanding the regional embeddedness of family firms over time. These linkages constitute the relational infrastructure of family firms, through which normative expectations and beliefs are exchanged and maintained. Comparing the personal characteristics of successors and predecessors of family firms and their linkages with other individuals and organisations have revealed differences that suggest a generational shift in their relational infrastructure and, accordingly, in their degree of regional embeddedness.

I observed that while successors still share close firm-internal relationships, they are more focused on professionalism than family, are more oriented toward international interaction partners, and have stronger supra-regional networks than regional ones. Thus, regional embeddedness seems to be less important to them than to their predecessors. Whereas these findings only represent a first indication of an increasing regional dis-embeddedness of family firms, this tendency might affect the future patterns of regional development in Europe by getting amplified in three ways.

First, the number of family firms approaching the time for succession is rising in the Basque Country, as well as throughout Europe. This suggests that the generational changes in terms of dis-embeddedness in individual family firms can turn into change on a wider scale in Europe. Taking an institutional perspective, successors can act as institutional entrepreneurs and consciously pursue changes by actively trying to modify business behaviours in their regional contexts. Alternatively, individual successors might engage in unconnected institutional work by simply following – to some degree unknowingly – their underlying, taken-for-granted beliefs of how to do business legitimately. Future research should investigate the consequences of dis-embeddedness of family firms for regional development.

Second, like Europe as a whole, the Basque Country faces challenges in terms of an ageing population and low fertility rates, making it more and more difficult to pass on the business within the family (Duh, 2012; Isusi, 2008). This means that family firms increasingly have to look for successors from outside the family, or even from outside the firm or region. However, since such external successors are likely to have fewer regional connections and might thus respond less to local social obligations and expectations, this trend could aggravate the regional disconnectedness of successors even more. Future studies should explore the consequences of family firm dis-embeddedness for regional development when comparing family and non-family successors.

Third, due to increasing global competition and price pressures, family firms will have to seek competitive advantages and growth prospects beyond their regional or national boundaries (De Massis, Frattini, Majocchi, & Piscitello, 2018), again increasing their international linkages while at the same time weakening their regional and local ties. While this pressure to internationalise affects all companies, successors – of their own accord – seem particularly willing to participate in a globalised economy. It is important to further investigate the globalisation process in family firms and how it affects their competitive advantages across generations.

Finally, from a policymaker's perspective, I wonder what it would mean for regions to have a weaker bond with their family firms. On one hand, this outlook threatens long-established connections and well-functioning ways of doing business, adversely affecting other local firms operating in supplier relationships. Regions would lose job opportunities and the social and philanthropic contributions of family firms, making them overall less attractive for people to settle in. On the other hand, "a successful succession can give a new push to the firm" (Fernández & Nieto, 2005, 79) by providing it with new resources via successors' acquired capabilities, which might be needed to adapt the firm to new standards and to secure its survival in a globalised world. In this respect, successors' different leadership and management styles might be needed tools to prevent regional lock-ins and to ensure that they are not lagging behind. This might ultimately also benefit firms operating in the region or within the value chains of family firms. In a survey of German young professionals, Mohnen, Mückenhausen, and Toporova (2016) found that what renders family firms less attractive than other potential employers was their location and perceived lack of internationality. Thus, in order to enable regions to benefit from globalisation while retaining family firms locally, policymakers need to create ways to make regions and family firms attractive to potential successors and employees, and to ensure successful takeovers while embracing the increasing processes of globalisation.

For instance, policymakers may facilitate the succession process itself by providing succession consulting or innovative financing options in the case

of costly family-external takeovers. In the case of the Basque Country, the regional government has introduced tax benefits to keep family firms local, by incentivising transfers to their employees instead of selling the firms to unknown shareholders from outside the region. To generally increase the attractiveness of family firms in rural regions and compete with the attractive working conditions of big corporations, policymakers need to provide educational, social, and cultural opportunities within the region and help address other problems of family firms such as high wage costs and skilled worker shortages (KPMG, 2019; Mohnen et al., 2016).

The results of this study imply that regional ties cannot be taken for granted; what is even more important is to consider the temporal dynamics (such as succession) that may trigger family firm dis-embeddedness. This chapter attempts to further research on the networks and regional linkages of family firms before and after succession and their consequent effects on economic and social development.

Note

- 1 This term refers to the autonomous community of the Basque country in Spain (*Pais Vasco*). It should not be confused with the greater region of the Basque Country that, in addition, includes the Spanish autonomous community of Navarre, as well as three provinces (Labourd, Lower Navarre, and Soule) in the French Department of Pyrénées-Atlantiques.

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