ISCTE Business School
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Succession in Family Businesses

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Case Study Luithlen Werke GmbH & Co.KG

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SUCCESSION IN FAMILY BUSINESSES – CASE STUDY LUITHLEN WERKE GMBH & CO.KG

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Abstract

The present master thesis gives an overview of most relevant theoretical concepts in order to understand the unique organizational form of a *family business* as well as its decisive business continuity factor *succession*. The aim of this paper is to compare those theoretical concepts by providing insights due to a single embedded case study approach. Thereby, three family members of one particular family business are interviewed in a semi-structured way allowing an all-inclusive overview of the manifold challenges a family business face throughout its multi-generational existence. Furthermore, the research findings will show us that even with next generational successors in place the survival of a family business is not automatically guaranteed. Understanding the decisive threat of succession, it is therefore inevitable to include past succession decisions as they may lead in one or another way the future development of the three systems – family, business, and ownership.

Key words: family business; succession; single case study; three-circle model, intra-family successors

A presente tese de mestrado proporciona uma visão geral sobre a relevância de conceitos teóricos aplicados à estrutura única organizacional de um negocio familiar e ao factor que da continuidade ao negócio: a sucessão. Esta tese visa estabelecer uma comparação dos conceitos teóricos anteriormente mencionados, usando um estudo de um caso como referência. Neste contexto foram conduzidas entrevistas a três membros pertencentes a uma familia e que, por sua vez, gerem um negócio familiar. No âmbito destas entrevistas foram manifestados os diversos problemas e obstáculos que ocorrem numa empresa familiar, tendo esta passado por várias gerações. Por conseguinte, conclui-se que a sucessão dentro de uma empresa desta natureza não garante o sucesso da mesma até então alcançado. Tendo em conta a ameaça que uma sucessão pode significar, é imprescindível analisar decisões tomadas no âmbito de uma sucessão, que por sua vez poderão ter repercussões no desenvolvimento de três sistemas - família, negócio e propriedade.

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Table of Contents

List of Figures

1. Introduction

Family businesses are the oldest known form of business (Frasl & Rieger, 2007) and the majority of all companies worldwide are family businesses (Heck & Trent, 1999). Its organizational form is a global phenomenon, which contributes significantly to the economy of a country. Family firms[1] exist in every industry and come in several sizes and legal forms, ranging from micro, small and medium-sized companies to large public firms. They are an essential source of employment and account for more than 50% of the national GDP (Ferramosca & Ghio, 2017).

In Europe, about 70% - 80% of the companies are family owned. Taking first rank is Italy with about 99% of family-owned companies (LeMar, 2001). Another interesting example is the US where 95% of all companies are family businesses (Schwass et al., 2004).

These numbers underline the fact that family firms play an essential role in every economy and society, however, most are unaware of their impact and significance (Cox, 1998).

Although family business as a research subject has caught much attention throughout the years, researchers still have not managed to conduct a suitable amount of studies compared to other fields of business (Winter et al., 1998).

Publications in journals and scientific newspapers have steadily increased from 33 articles in 1989 to 195 articles in 2003, underlining the shift of researchers' focus, recognizing the importance of further research regarding this topic (Sharma, 2004).

This change led up to today's situation, where one can find research journals encompassing topics related to family-owned companies covering all areas such as Family Business Review, Family Process, Organizational Dynamics, and Management Decision Journal. Even though the intensification in publications involving this topic show that researchers account for its importance, they are still not able to bring the multitude of different interpretations down to a common denominator.

All these different definitions of a family business only strengthen the argument that there is a lot more research needed as the intertwining concept of this organizational form is made up of a family and business aspect which is so complex that one cannot look at it separately. Two subsystems existing in parallel converge and form mutual relationships so that a successful

[1] In this master thesis the terms „family business ", „family firm ", „family company ", „family-owned firm ", „family-owned company ", „family-controlled firm" and „family-controlled company" are used synonymously.

business development depends primarily on the harmonization of these two systems (Hammer & Hinterhuber, 1993).

It is obvious that the constellation of roles within a family differs and sometimes overlaps with their respective roles in the business. A potential collision of these roles within the enterprise is often seen as the greatest conceptual weakness of family businesses (Schwass, 1989).

One of the fundamental missions of a family company is to hand over the business to the next generation (Davis, 1986). Researchers agree, that succession is the key component of any family business because its future existence entirely depends on it (Handler, 1994). Succession is explained as the decisive threat to business continuity in family businesses (Morris et al., 1997). Solomon et al., (2011) describe succession as a high-risk proposition because only 32% of family businesses survive the transfer to the second generation, 10% the third generation (Beckhard & Dyer, 1983a; 1983b) and only 3% the fourth generation (FBA, 2014). For this reason, succession is the most researched and discussed topic in family business literature (Poutziouris et al., 2006).

However, the relevance of this wide issue is handled differently in reality. According to a PWC study (2016) the percentage of family businesses having a 'plan' for their succession process has not risen significantly in recent years. Even today, 43% of all family firms worldwide do not have a succession plan in place, and only 15% have a succession plan for all senior executives in place (PWC, 2016). Succession is a challenging endeavour as it is a multistage process that requires several factors including time, planning, communication skills, self-awareness, and good relationships within the family. Succession can only be analysed from a multiple level perspective. Central is the belief that the intertwining of related subsystems is critical in understanding how the overall system functions. Miller and Rice (1967) explain "that the family business is an instance of the interaction of two subsystems – family and business – where potential for conflict exists" (p.286).

The structure of the master thesis looks as followed: First, it gives a broad overview of current and past streaks of literature to show the complexity of the research question succession in family businesses. Hence, it is organised in two main theoretical parts *family business* and *succession* in which most relevant concepts facts are highlighted. Second, in its empirical analysis this paper tries to elaborate the methodological approach of a case study, its data collection and analysis. Third, the results and analysis section try to shed some light into the family business *Luithlen Werke GmbH & Co.KG* by presenting insights and opinions of family members. Fourth, the discussion part tries to evaluate the presented research findings based on theory as well as to draw conclusions of whether theory can or cannot explain the end of the company.

The overall objective of this research paper is to make a constructive contribution to both science and the business family. On the one hand, it shall contribute to science because *Luithlen Werke GmbH & Co.KG* provides a rare insight being one of few family enterprises enabling to transform into the fourth generation. On the other hand, it shall provide a look behind the scenes illuminating the describing factors as to why it could no longer survive even though intra-family successors were in place.

Simultaneously, *Luithlen Werke GmbH & Co.KG* shall be used as an example of family businesses whose business development success and failure story must include a country's historical context in which special circumstances can have a tremendous impact. Finally, it shall help researchers to understand why family business is a challenge itself, thus making it very complex and difficult to future generations.

2. Literature Review

2.1. Family Business

The following chapter encompasses the most relevant topics related to family business. More specifically this chapter aims to point out the definitory challenge of a family business. Closely related to that issue, is the complexity of a family business system because it consists of three independents but overlapping groups: family, business, and ownership.

After the explanation of how to frame a family business system, the next section provides an overview of seven bivalent attributes, with each of these attributes having several advantages and disadvantages for the family, the business, and the ownership. As the family business is an intertwining concept one must take a closer look at the development of these social systems.

Due to the fact, that the family business is an intertwining concept of subsystems it is under constant change. However, that does not imply that family, business, and ownership structures change at the same time. For this reason, the last chapter reviews the development of the family as well as the development of the company within a family business.

2.1.1. Definitory Approaches of the Family Business

Until today the term family business is not universally defined in the business literature. Reasons are manifold, which is why a short description of the challenges to define family business is given (Litz, 1995).
In earlier times, family business research was not considered as an independent business area, but instead was categorized within the general area of entrepreneurship. At that time researchers did not realize the uniqueness and major influence of this organizational form (Litz, 1995).

While entrepreneurship is defined either as "the challenges faced by an organization's senior management to balance managerial perception with operating slack levels" (Litz, 1995, p.72) or as "demonstrated willingness to initiate risky and innovative actions" (p.71-72) one realizes that entrepreneurship mainly focuses on organizational initiatives. Business researches assumed that family business was focused on organizational initiatives when it was not. Litz (1995) argued that this assumption would reveal the first contraction. In his opinion, family businesses are not about organizational initiatives per se but must be differentiated towards non-family businesses due to the management and continuity of intraorganizational family-based relatedness factor. Another confounding variable is size. Handler (1989) stated, that it is futile to define a family business because it varies in terms of sizes and types stating that there are no clear boundaries to what defines a family business in the sense of organizational size or type. When Litz (1995) published his work he also felt the urge to address the variable size because still at that time family businesses were often seen synonymously for smaller enterprises. This assumption was in fact contrary as researchers found out that some of the largest enterprises until today are family-controlled (Litz, 1995).

Even though family business research is (by now) an independent area, the definitional question remains problematic as researchers have not agreed on one widely accepted definition (Zahra & Sharma, 2004).

Nevertheless, researchers agreed very early that family businesses are unique due to the involvement of the family (Miller & Rice, 1967) and hence its heterogeneity (Arregle et al., 2007).

However, the issue at hand was to create a valid definition that encompasses a family businesses' difference to a non-family business.

In his article *The Family Business: Towards Definitional Clarity* Litz (1995) tries to simplify the complexity of the definitional question by addressing two approaches.

First, the structure-based approach, which defines a business to be a family business, while focusing on the family involvement in a firm. Family involvement in this case means being involved in the ownership and management of a company. Because family businesses come in a range of organizational forms, family businesses come in a diverse range of ownership and management possibilities. Therefore, Litz (1995) states that family interests can be concentrated within one family member, a family unit, or a diverse group of individuals.

In his second approach, the intention-based one, Litz (1995) considers realized and unrealized value preferences of intraorganizational family-based relatedness as the crucial factor to defining a family business. The intention-based approach takes into account the different preferences of each member towards intraorganizational family-based relatedness. Litz (1995) argues, that companies vary in terms of the extent to which they wish to become, or not become, family-controlled (see Figure 1).

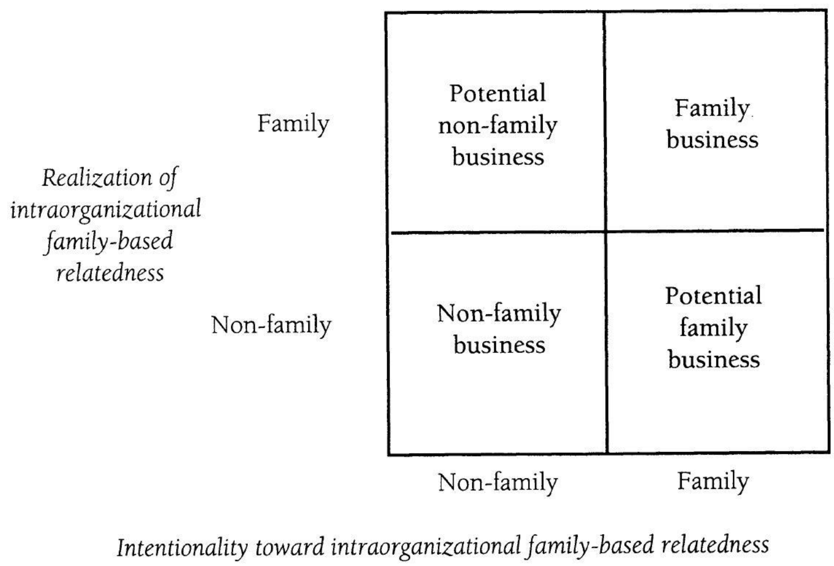

Figure 1- Defining Family Business: An Intention-Based Approach (Adapted from Litz, 1995, p.76)

Chua, Chrisman and Sharma (2003) published a review of the most important trends in family business research presenting two additional approaches in how to define a family firm. The component-of-involvement approach says that a business can be defined as family business if a) a family is the owner, b) the company is family-managed, or c) the company is controlled by a family.

Researcher argued that the components-of-family-involvement: *ownership, management, governance, and transgenerational succession* were easy to operationalise but at the same time it was not precise. Questions came up like:

What does family ownership exactly require? 100% ownership? 100% controlling ownership? 100% effectively ownership? Would it be sufficient for a family to govern the business or do they also have to manage it? Is a concrete probability of succession within the family necessary or is the mere possibility of such occurrence enough?

Many researchers moved from the component-of-involvement approach to the essence approach because they realized that it was necessary to understand the essence of a family firm. According to Chua et al. (1999) the essence of a family firm is basically defined by four requirements that are not exclusively but complementary:

(1) a family's influence on the company's strategic formulation;

(2) the family's vision and intention to keep control and hand over the firm to a successor who is intra familiar;

(3) family business behaviour; and

(4) distinctive familiness

Compared to the component-of-involvement approach, the essence approach does not believe that only the family involvement is sufficient to define a family firm, but instead argues that some form of family involvement is sufficient. The family involvement in the essence approach encompasses a behaviour that creates a shared distinctive vision of the firm among each member, which in this case is a requirement in order to be considered a family firm.

Thus, according to the essence approach, it can be the case that two firms with the same extent of family involvement are not both categorized as family business due to of a lack of vision, familiness or behaviour emanating from family involvement.

By combining the component-of-involvement and the essence approach, it can be stated that a family business is unique and differs from non-family businesses as its ownership, management, governance, and succession structure shapes the company's goals, strategies, structure, and the way each is formulated, designed and implemented (Landsberg, 1983).

After gaining an insight of the four definitory approaches and understanding what the essence of a family business is, this paper will be based on the following family business definition as it considers the most important elements:

"*The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the* *same family or a smaller number of families in a manner that is potentially sustainable across generations of the family or families"* (Chua et al., 1999, p.25).

For the purpose of this study it is also worth to look at the German definition of family businesses because the case company is from Germany. Hence, a firm is defined as family firm in which up to two natural persons or their family members hold at least 50% ownership of the firm, and in which these natural persons are also involved in the management of the firm (IfM, 2017).

2.1.2. Family Business as two interacting social systems

As briefly described in the previous part, a family business is a unique form of organization. Having a closer look at the term *family business* the special construct might be already obvious as it contains two interacting social systems: a family and a business.

In a normal business world those two social systems are very much separated. A standard employee goes to work without being involved with one's own family at the same time. But in the special organizational form of a family business, these two normally parallelly existing systems converge and form mutual relationships, so that a successful business development depends primarily on the harmonization of these two systems (Hammer & Hinterhuber, 1993).

It is obvious that the overlap of different roles in family businesses is much greater than in other forms of organizations. A potential collision of these roles within the enterprise is often seen as the greatest conceptual weakness of family businesses. Both worlds are subject to their very own value system or logical understanding (Schwass, 1989).

In the social system of a family, emotional relationships determine social interaction. A family member's unmistakable and unique personality is at the forefront, regardless of his or her contribution to the family or his or her ability to perform. Each member is irreplaceable for the family. Mutual benefits are not immediately invoiced in monetary terms, as in companies, but are compensated in an ideal form such as gratitude, feelings of obligation, guilt, recognition, etc. Hence, a family is characterized by interpersonal ties and a need for justice between family members (Wimmer & Gebauer, 2004).

Neuvians (2011) argues that the central function of a family system is to take care about its family members. He mentions that despite other family obligations like reproduction and education family is mostly about the interaction of its family members.

Achleitner et al., (2010) states that family interaction is important because it satisfies basic social and emotional needs and enables members to develop their own identity and individual values.

In a family system the way of communication is very different than in a business environment. Family members communicate mostly verbally and face-to-face whereas in business systems most communication is being held formally. The behaviour of a family member is less oriented towards financial remuneration what is evidently a difference in the business world. Whereas payment plays a significant role in a business, a family's "currency" contains love, attachment, and loyalty. These attributes are mostly expressed through recognition and appreciation (Neuvians, 2011).

Considering, the perspective of the sociologist Huinink (2008) personal recognition and support is a factor which makes a family attractive. He emphasizes, that the psychosocial dimension of interaction is in any family important because it offers space for intimate, emotionally satisfying togetherness.

Schneewind (2010) also underlines the relationship aspect of a family and sees a fundamental characteristic in the fact that their members spend a large part of their lives together. The bonds which are created during their common life influence the people and their relationships profoundly. The recurring interactions between family members are the reason why families have close relationships and a common relationship history.

For that reason, relationships in families can be described as close, private, and permanent. Relationships in the business system are rather formally and on distance.

As the first part was mainly focusing on what determines a family the upcoming part examines what determines a business.

It is common knowledge that a company's goal is to maximize profits, gain market significance and secure its survival in the future. To achieve these goals each member of the business is expected to perform on a high level. In return, individuals are paid monthly wages in the short-term. In the medium to long-term perspective, individuals are paid in form of promotions.

People in a business are supposed to communicate rather fact-oriented and functional. Feelings are very often considered as a disruptive factor which should be avoided. One of the most important criteria that determines the social system of a business is, that everyone is obliged to have specific professional competencies. If not, individuals would be replaceable as too many individuals would be able to do the same work. That makes a company kind of independent from its members but at the same time the possible replacement creates a competitive climate that could have a positive effect on the individual's willingness to perform (Wimmer & Gebauer, 2004). The expectation of an individual's work-performance is normally constituted in an employment contract which can be dismissed if the individual is not performing or if the company is dissatisfied of the performance. That means, in this social system it is possible that an individual's membership is terminated. The focus of the business is on fulfilling its function which is why individual members of the organization are of less interest (Neuvians, 2011).

The following table gives a summarized overview of the most important contrasts between family and business system.

	Family System	Business System
Behaviour	Emotional	Rational
Orientation	Internal	External
Risk attitude	Risk-averse	Risk-taker
Attitude towards Change	Change as danger	Change as chance
Evaluation of members	Performance-dependent	Performance-related
Value of the System	Value in itself	Value through income
Relationship Principle	Kinship	Contract
Membership of the System	Permanently	Terminable

Figure 2 - Family vs. Business System (Own representation based on Mühlebach, 2004)

In conclusion it can be said that the interaction of family and business makes a family business unique but at the same time difficult to run. Each system influences each other which is why goals and interest need to be aligned. They are two contrary social systems which expect different things in terms of goals, relationships, communication, membership, and remuneration (Handler, 1994).

2.1.3. The Three-Circle Model of a Family Business System

"*The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a smaller number of families in a manner that is potentially sustainable across generations of the family or families."* (Chrisman et al., 1999, p.25)

If one has a more thorough look at the theoretical definition of a family business, it can be noted that framing a family business system assumes more than just the presence of the family and the firm. Tagiuri and Davis (1982), two researchers from Harvard Business School, figured that out. After conducting surveys and interviews and reviewing family business cases, they realized that the two models of family and business were not sufficient to capture the interactions and tensions they got to witness. It made them realize, that in some family cases family members are owners and in others not and that's what the "family" and "business" couldn't account for. Families were fighting over getting shares in the company, which evidently lead to the third factor, the ownership part. In their opinion, family, business, and ownership are three interdependent but overlapping groups.

The Three-Circle-Model explains the institutional overlap of three systems and seven emerging stakeholders, each representing own viewpoints, goals, concerns, and dynamics (see Figure 3). First, the seven stakeholders which are somehow connected to a family business can be summarized as: (1) family members not involved in the business, but who are descendants, spouses/partners of owners; (2) family owners not employed in the business; (3) non-family owners who do not work in the business; (4) non-family owners who work in the business; (5) non-family employees; (6) family members who work in the company but are not owners; and (7) family owners who work in the business.

Second, it is crucial to understand that due to its overlapping system some of the interest groups can have multiple roles. For example, a family-owner-employee, sits right in the centre of the three intertwining circles embodying three different roles. In concrete, a family-owner-employee can be a father, who owns the company and is working in the family business.

Family members, however, can also just embody two roles. For instance, a family-owner's intersection combines the ownership and family part but not the business. And, a family member, who is a family-employee has the family and business elements integrated but not the ownership element.

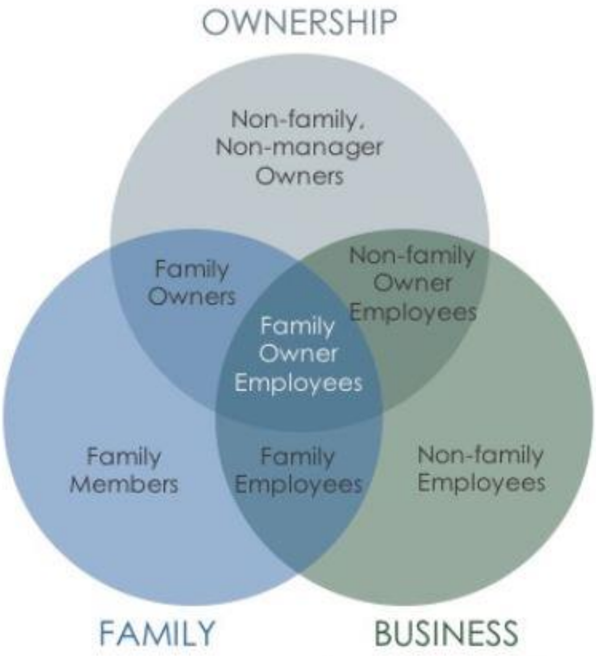

Figure 3 - Three-Circle Model of the Family Business System (Adapted from Tagiuri & Davis, 1982)

Third, the model highlights that each interest group has different logic. Hence, each stakeholder varies in interests, goals, concerns, and dynamics which may lead to conflicts. As the long-term success of any family firm depends on the relations and mutual support of each interest group, all logics must be integrated into a functioning and supportive matter to set future direction (Cambridge Family Enterprise Group, 2018).

This explanatory model of a family system was chosen because it is until today widely held accountable. Decades later, researchers still acknowledge their work, stating that the model was for the first time able to illustrate the complexity a family business is facing since *family, business and ownership* are autonomous but at the same time be very much interdependent systems (Simon, 2012). Moreover, family members are embedded in different roles expecting to fulfil different expectations in every one of the systems. That is a complexity which is hard to handle, and let outstanding people realize that conflicts are inevitable.

In conclusion, a family business, to be regarded as such, must involve three subsystems. Furthermore, we understand that because of these three subsystems, seven stakeholders appear each having their own interests, goals and concern which can lead to conflict situations. Again, one differentiation from a non-family business is the overlapping system in which family members can play multiple roles. Hence, family members multiple roles affect automatically the family enterprise.

2.1.4. Bivalent Attributes of Family Businesses

Tagiuri and Davis (1996) state that there are bivalent attributes of the family firm because each key attribute has advantages and at the same time disadvantages for the family, business, and ownership. Therefore, a family firms' success depends on the correct implementation of these attributes.

Due to the fact, that only a small percentage of family firms survive into the next generation, it is crucial to manage these attributes accordingly as a family firms survival depends on it. "Their successful management will also affect the well-being of the family and the family's relationship with employees and with the greater community" (Tagiuri & Davis, 1996, p.200-201).

Tagiuri and Davis (1996) distinguish between seven key attributes or intrinsic characteristics: (1) simultaneously roles; (2) shared identity; (3) lifelong common history; (4) emotional involvement and ambivalence; (5) private language; (6) mutual awareness and privacy; and (7) meaning of the family company.

As we are aware now, a family business consists of an institutional overlap which is why these attributes exists.

(1) Simultaneous Roles mean in this case that a family member in a company can embody three roles at the same time: as relative, as manager, and as owner. As relative, the family member should focus on the welfare and the unity of the family. As managers, family members are concerned primarily on operational effectiveness. And lastly as owners, family members care about the viability of the company as well as about return on investment.

In that case, family members have simultaneous duties towards the family, business, and shareholders, and to each other as relatives, managers, and owners. The advantage is, that simultaneously roles can create a sense of loyal bonding to each other and to the business. Power struggles can be reduced in this way, which leads to an increase in trust and cooperation. This loyalty retention also causes a mutual understanding of personal weaknesses and strengths.

Under the circumstance, that there are several family members having simultaneous roles, the power of decision-making is centralized, which in turn leads to an increase in efficiency, effectiveness, and privacy of decision-making processes. Prior to a centralized decision-making ability is the availability of information of ownership, business, and family.

When the interests of the company, the management and the family are aligned, decisions can be made very quickly. The way of making sustainable decisions is therefore shortened and can have a crucial advantage for family businesses (Tagiuri & Davis, 1996).

But, simultaneously roles can also affect a family business negatively. Disadvantages can occur through a so-called “norm confusion”. As already explained in 2.1.2. a family business consists of two social systems. Thus, each system has its own behavioural norms. A family primarily strives for unity and attempts to curb or deny rivalry among family members, while organizations frequently is known for competition and rivalry.

As a result of two parallelly existing norm standards, either family unity or a firm’s competitiveness could be sacrificed to protect the family or the company. Because of this overlapping system, the three factors family, management, and ownership can get mixed up when family members lose objectivity. Business related decisions can easily be influenced by family issues and family related decision can suddenly be transformed into business arguments which then results in poor performance on both sides.

Another disadvantage regarding a family businesses’ performance is the possibility of a family member to move into different roles depending on the situation. For example, a family member can use its power and position by treating other family members in the family business subordinately. More specifically, a family member who is in an owner-father-president position can turn into the father role to threat his grown-up son as a child to underline his power or position. The availability to change in different roles is challenging for subordinates as it gives one person the greatest power in conflict solutions. Another factor, which amplifies conflict situations is that each family members regardless of their roles in the firm or the family, see themselves as representatives in business matters.

(2) Shared identity

A sense of identity is shared when relatives work together. For example, the family name is an identity for people inside and outside the company because it means something. Therefore, sharing a common identity can be both a burden and a relief. It can influence a family business negatively, when a family member misbehaves in the company or in a different environment, as people could assume that this behaviour is also to be expected from the rest of the family. Here, the institutional overlap can endanger a family business due to its intertwining component. Meaning, if a family member behaves bad it affects all three components somehow. So, the behaviour of a relative can influence the reputation of a company or of other relatives negatively or positively. It is therefore imperative, that family members behave properly towards all stakeholders to preserve the reputation of the company and the family.

(3) Lifelong common history

The next bivalent attribute can be described as the lifelong common history of family members. Family members who live together experience obviously many things together. However, these shared experiences are perceived differently by everyone. Also, growing up together provides each family member the knowledge of someone else's strengths and weaknesses. In that case, the behaviour of family members who work together is influenced by a lifelong common history. When working together family members can use this knowledge constructively or destructively. A constructive of family behaviour would be to use one another's strengths and to complement one another's weaknesses. A destructive example would be to point out weaknesses of family members to humiliate them or to undermine their position. The unique experience of a lifelong common history can either turn into an economic advantage when the relationship is positive and constructive, or it can lead to the exact opposite. On the one hand decision can be made efficiently because cooperation and trust between family members exist due to shared past experiences. On the other hand, a negatively experienced past where for instance a father-son relationship has been difficult from an early age on, could harm the company as each other would insist on their own business decisions.

(4) Emotional involvement and confusion

Family members possess ambivalent feelings through the history of one another's relationship. "Given the potential for greater love and greater hate among family members, it is not surprising that emotions between relatives often surface more easily than between nonrelated individuals" (Tagiuri & Davis, 1996, p.204). Because of their emotional relationships, family members can lose their objectivity and professionality while working together by interpreting communication in a family context. However, not every family member communicates emotions in an open way when a conflict occurs. Based on that, a relative can decide to whether express or suppress feelings. Positive emotions such as love can turn into an advantage for the whole company, as it motivates, strengthens loyalty, and increases trust and mutual support. Negative emotions such as hate or jealousy toward a relative can complicate a working relationship and disrupt greatly the company immensely. "The denial of negative feelings can result in the suppression of discussions about quite natural differences of opinion, and lead to covert expressions of hostility such as undermining each other's confidence, withholding emotional support, or avoiding one another" (Tagiuri & Davis, 1996, p.204).

(5) Private language of relatives

Another unique element of a family member's interaction is its private language. Living under the same roof provides family members with this bivalent attribute. Due to their own private language, communication between family members can be more efficiently that it is ever possible between nonrelated individuals. Family members understand one another's nonverbal or verbal communication faster, which gives them the advantage to make decision faster and without further agreements. However, this private language can leave nonfamily employees out and can likewise be a weapon in an ongoing family dispute.

(6) Mutual awareness and privacy

Mutual awareness of family members circumstances is created in three different ways. First, family member's awareness rises through explicit communication among relatives. Second, a family's private language supports awareness. Third, family members exchange information about other relatives which increases the information flow. Mutual awareness and privacy can be seen as an advantage because it can facilitate communication between family members and help to ease business choices. Mutual awareness is very important in a family business because relatives get the chance to recognize how to support each other. Obviously, the down side of mutual awareness and privacy is similar to the bivalent attribute shared identity. It can be negatively associated when family members feel supervised or cornered since family members who work together spend most of the time together. As they have an intense awareness of each other they might feel like sitting in a glass house being watched over and having less personal privacy in this domestic surrounding.

(7) Meaning of the family company

For each generation, the family business has a different meaning or association. A founder typically sees the company as part of the family and he or she can be highly emotionally attached to it. It can happen, that a founder-father spends more time in the company than with the family which could influence a child's perception positively or negatively from small age. For instance, if a father/husband's attention is drawn more to the company than to his kids/wife it may lead to greater conflict situations. But, it might also be the case, that children from the founder, perceives the company as the founder's creation, so they turn into guardians or siblings of the company. Based on that insight it is crucial to understand that the way relatives perceive the company is an important factor that can influence working relationships between family members negatively or positively.

As a result, it is crucial to recognize for managers, or for those who engage with family enterprises, that "the same organizational features of these firms account for both their strengths and their weaknesses" (Tagiuri & Davis, 1996, p.206).

Analogous, this bivalent potential of characteristic behaviour in family members cannot be eliminated because they derive directly from the intertwining system of the three groups: family, business, and ownership.

However, under the premise that families recognize these bivalent attributes and know how to implement them in a correct and sustainable way, a family business has a better chance to survive.

2.1.5. The Management of Paradoxes in Family Businesses

A family's logic is based on emotions and not on material advantages whereas a company's logic is focused on economic criteria (Martinez & Aldrich, 2014). Family business research shows, that success and failure of a family business is caused by these contradictory rationalities. This is called a paradox (Simon et al., 2012). In other words, what may sound right in the perspective of the family system may be wrong in the perspective of the business system (Simon et al., 2012). The consequence is, that certain decisions in a family business can neither be right or wrong. This undecidability is also called 'pragmatic paradoxes', because decisions cannot be calculated through tools or that experts could say what to do (Simon, 2012). Therefore, family businesses are in the constant position to ensure mastering these demands for action and undecidable conflicts of objectives. Hence, the difference between a short-lived and a long-lasting family business is the ability to accept these pragmatic paradoxes as common destiny and to not take sides of one of the systems (Simon et al., 2012). Conversely, a family business is going to fail when it tries to separate the business from the family in order to run it as a public traded company with external managers not considering family needs. Whoever wants to manage the business professionally must manage the family professionally. Family businesses are most likely to fail when boarders of the family and business systems have been abolished (Simon, 2012).

Hence, managing the paradoxes is the only alternative to distinguish and to integrate them. As this part has been very theoretical two examples of "paradoxes" in family business will follow.

Paradox 1: Family, family members and family play rules are *resources* for the company. Family, family members and family play rules are *danger* for the company.

This paradox is the most important contradiction and demonstrates the reciprocal dependency of a family business system. According to Simon (2012), it is a business and psychological challenge to organise the family in such a way that it remains as a stability factor for the company and to manage the company in such a way that the family retains its interest in it. Thus, the key is to keep the two systems separated so that there is no interference in their functionalities, but to keep their contact so close that they cross-fertilise each other. It is useful for a company's survival if a company's culture features some of a family's characteristics. But it can be for both systems dangerous, if the boarder is not recognizable any longer and if the boarder is not respected any longer. In practice, it can be observed that long-lasting family businesses set clear priorities to ensure to be able to act even with the existence of paradoxes (Simon, 2012).
Simon et al, 2012 were able to find a rule which is useful in that context: *A company takes precedence over the interests of individual family members.*
The rule serves as a basis for decisions in cases of conflict and is nevertheless not a decision against the interests of the whole family.

Paradox 2: Family members are owners/shareholder of the company. Family members are not allowed to act according to shareholder / investor decision making criteria

Investors are more likely to invest in short-term expected returns. In family businesses the scenario is focused on long-term planning because of the permanence of family relationships that also encompass permanent relations towards the company (Simon, 2012). The shareholder-value-approach changes in family businesses and shareholders from this sort of business is willing to overcome financial lean backs and to forego dividends (Simon et al, 2012). In addition, family businesses are capable to distribute "emotional currencies" instead of financial resources. For instance, emotional currency can be the belonging to a renowned dynasty. Simon argues, that family companies that do not act as financial investors convince as successful investors as the return achieved exceeds the return expectations of the capital market.

This section aimed to give a structured explanation of the management of paradoxes to highlight the extraordinary complexity of a family business system. The existence of paradoxes is a further example of how family business can be differentiated from non-family businesses. The in the beginning rather theoretical approach were than based on two examples to illustrate paradoxes in a simpler way.

2.1.6. The Development of the Family within a Family Business

In analysing the last bivalent attribute *meaning of the family company* it was already short mentioned that each generation has a different association towards the family business. That means, that also generations develop within a family business. Family business research in earlier times, has mostly been focused on the business part of a family business rather than on the family (Sharma et al., 2014). Nowadays, researchers point out that there are indications that failed family businesses are typically caused because of the family and not the business itself (Klein, 2004).

While the empirical resilience of this thesis cannot be verified in the context of this paper, it underscores the fundamental role of the family in the family business. Consequently, this chapter is going to summarize a business family's functionality and dysfunctionality or in other words why do some business families still exist and others not (Brückner, 2017).

Simon (2012) states that an average family consists of three generations. The so-called nuclear family consists of the closest biological relatives of the first and second degree: grandparents, parents, and children (siblings).

Moreover, Simon (2012) argues that a family business survival often depends on its generation because the first three generations evidently have a stronger attachment to the business than multi-generation family businesses. Here, a multi-generation family business is a company in which the owner family influences business policies and which has survived at least three generations.

In the following paragraph, the organization forms of a family will be explained. Therefore, the stage model of family organizational forms developed by Simon et al. (2012) will be used as it gives a current overview of the family development in family business research.

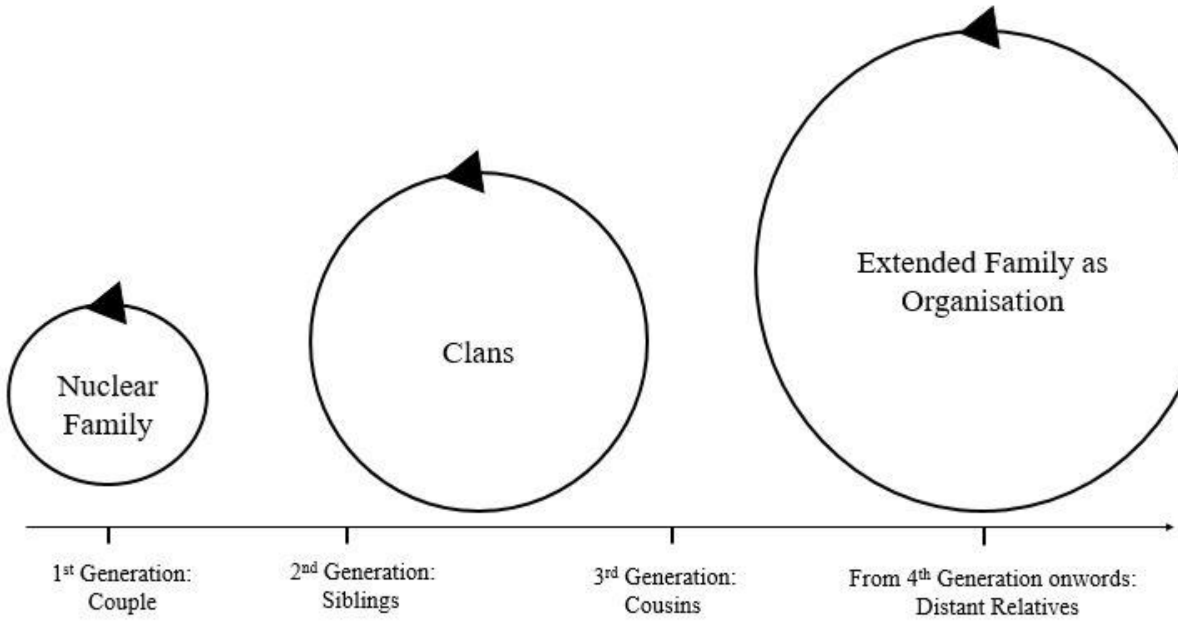

Figure 4 - Family Organisation Forms (Own representation based on Simon et al., 2012, p.48)

In the first generation, the work of the founding family relies on an inseparable unity of person, family, and company, which owes its survival to the highly personal performance of the entrepreneur.

The methods used in the first years of a company's lifecycle to master existential problems are consequentially shaping experiences and determine the basic assumptions, norms, rules, and procedures upon which the company will continue to operate in the future.

Managing a small family does not require the need for institutions, contracts, or committees and much in the same way a company's challenges in the first generation can be seen. Thus, in the first-generation challenges can be regulated very similarly to family issues. A family from the 1st generation has a very clear ownership structure. Hence, short decision-making paths, no conflicts and clear power relations can be listed as advantages (Simon, 2012). According to Wimmer (1996), the widespread self-assessment of the founder, that he is irreplaceable, has a true core, because the company was founded around the person of the founder and its everyday life is tailored to his personality.

When it is time that the founder's child (2nd generation) is ready to pursue his or her own career, the founder expects the child to make his or her own professional decisions about a succession solution. Nevertheless, the second generation is very strongly guided by the motives of their parents so that their life's work can survive (Simon, 2012). For instance, if a founder of a family business has just one child, that single child has no other choice than to become the successor if he or she wants to keep his/her parents dreams alive. Thus, putting immense pressure on the second generation to continue the company often for the sole reason not to let the parents down.

That “survival” experience distinguishes a first from a second company succession because parents from the second generation are usually not as strongly emotionally linked to the company as the first generation was.
As a result, emotional distance increases and the second generation finds it easier to hand over the company to others (Simon, 2012). From the third generation onwards, the growing number of shareholders is becoming an increased problem, as all children are given equal shares. This is called the European phenomena of inheritance distribution. With the increasing number of shareholders, the internal communication also changes within a family business. Whereas informal contact is seen as the norm until the third generation, this informality changes usually within the fourth generation of a company (Simon, 2012).
The reason for this is the increasingly complex structure of the family business. Thus, the more generations exist, the more family members are involved which leads to a more formal communication. In this stage, the family business is more confronted with extreme forms of conflicts than before. Simon et al. (2012) states, that the long-term survival of any family business depends on whether the family can make decisions in unity so that a common direction of development can be achieved.
However, this process requires a certain formalization to continue with an informal communication. Th creation of familiarity requires proper planning i.e. places and times must be determined so that an otherwise improbable communication can take place at all (Simon, 2012). Compared to a family in the 1st generation, where family members interact constantly either at home or at work, this interaction must now consciously be organized so that the family does not fail because of its own complexity but can remain the decisive resource for the company (Brückner, 2017).
Considering the above-mentioned aspects, achieving organizational flexibility gets more challenging as more generations are involved. At the same time, family members need to remain a unit with the ability to make joint decisions. Moreover, the development of every family has its own personal rhythm which leaves the question if a company’s development is synchronous to the one of a family (Klein, 2004).

2.1.7. The Development of the Company within a Family Business

Referring to the previous question, the answer is no. Simply, because normally the head of a family business usually changes every 25 to 30 years (Simon et al., 2012). Compared to that,

the development of the company within a family business is under constant change in order to stay competitive on the market.
It is necessary to consider a dynamic approach to explain the development of family businesses because they are changing all the time. Family businesses change, based on the natural growth of families which automatically affects ownership structures and because of its specific business development. The specific business development starts with the foundation and ends with the decease of the company (Klein, 2004). In order to span the arc of family entrepreneurial life cycle, the theoretical models in the literature are primarily oriented towards biological life cycles, which can be divided into focal points and phases (Großmann, 2014).
Hence, the focus of attention is on life cycle models specifically designed for family businesses.

Family Business Life Cycle by Rosenbauer

Rosenbauer's life cycle model is divided into a pioneer -, a growth -, a maturity- and a turning phase (Klein, 2004). In the pioneer phase the founder develops a new potential benefit. In the growth phase the potential benefit turns into a business idea. The transition into the maturity phase is marked as the generational transition in which the second generation is confronted with a dwindling competitive advantage as the innovative product is now the commodity. In times where the fragmentation of ownership can be observed the family business is at a turning point because the transition from the second to the third generation will be either the revitalization of the company or its death (Rosenbauer, 1994).
Klein (2004) criticizes Rosenbauer's life cycle because of his basic assumption of a chronological synchronization between family, owner, and business life cycles. He argues, that diversity predominates: Thus, a family business manager from the second generation can run the company as a founder would run it if the founder would have not died early. Another example of diversity could be, that a third-generation company is now keen to foster the internationalization process due to newly required technical or personnel resources. Hence, in that case, the pioneer and growth phase would be far apart (Klein, 2004).
To use the concept of a product-life-cycle as orientation seems cut and dried and illustrates, that the life cycle model is only applicable under simplified circumstances (Brückner, 2017). Based on that assumption another family business life cycle will be elaborated.

Family Business Life Cycle by Goehler

The family business life cycle by Goehler assumes that a family business develops continuously in a total of three phases, whereas the focus lies on the problems that could occur during that time (Goehler, 1993).

In the beginning, the family business possesses systematic strengths through entrepreneurship, pioneer spirit, flexibility, and pragmatism. These systematic strengths decrease in the second phase (Mertens, 2009) because the organization gets older leading to a declining learn ability which lets the manager preserve the business instead of changing it (Klein, 2004).

In the third phase, the vitality of a family business suffers from capital splitting as the number of shareholders increases and urgent changes can be blocked due to stalemates in management and control bodies (Großmann, 2014). Liquidation or sale of the family business represents the consequence of an unstainable company (Brückner, 2017). However, also this family business life cycle is not sufficient enough which is why a third life cycle is going to be explained.

Family Business Life Cycle by Klein

Klein (2004) combines the two previously discussed life cycles by Rosenbauer (1994) and Goehler (1993) and is convinced that only vital[2] family businesses are able to survive the internal and external factors of the life cycle. According to Mertens (2009), Klein's model is a systematic approach in which the phases are not assigned in a timely matter (see Figure 5).

In the following section, the vitality potentials and deficits of each phase will be elaborated (Klein, 2004).

[2] Vitality describes a company's ability to handle the disruptions and crisis it encounters in such a way that long-term survival is secured.

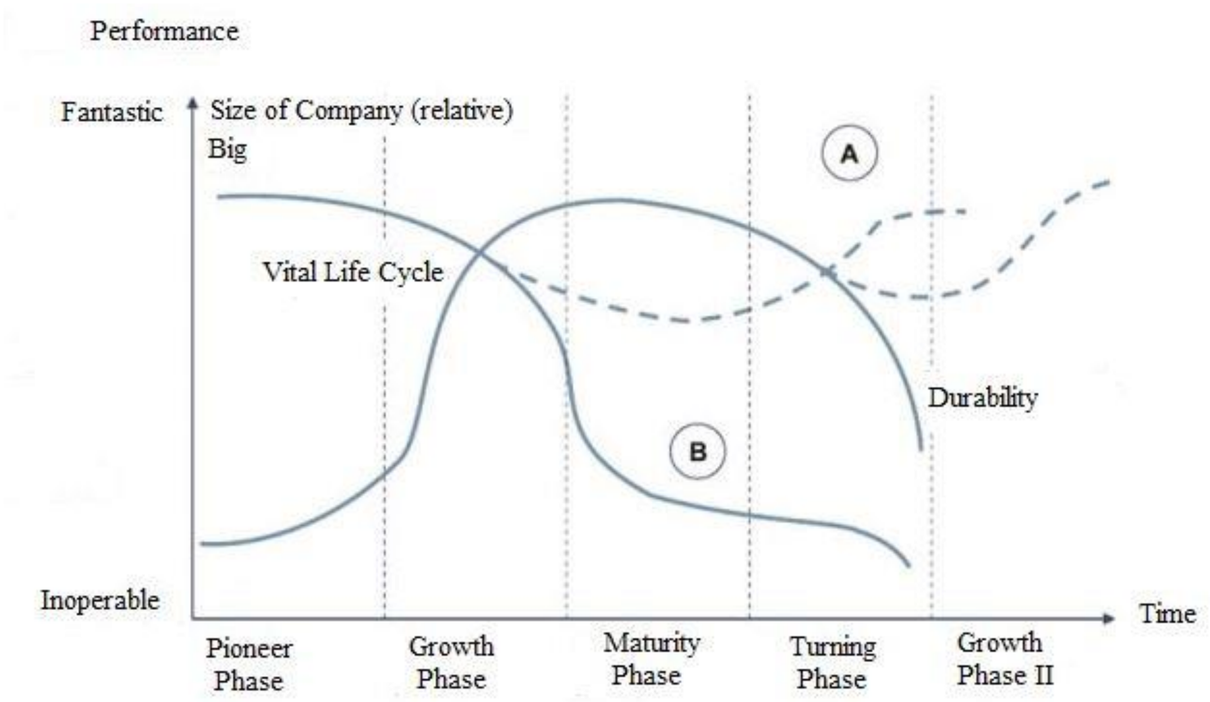

Figure 5 - Life cycle of a family business (Adapted from Klein, 2004, p.281)

Pioneer phase: Here vitality of the family business is relatively high. Strengths and weaknesses of the family business relate to the founder. Typical characteristics of a rapidly growing founding company are uncertain target groups and market potential, low competition, high risk, highly competitive dynamics, and high need of strategic decisions, as well as a highly customer-oriented business concept (Klein, 2004).

The decrease of vitality during this phase is enabled through the resource crisis, false prognosis crisis and the dissipation crisis. This drain on vitality is decisively important for the pioneer phase because the vitality reserves in a family business during this phase are almost congruent with the company related vitality of the founder (Klein, 2004).

Growth phase: During the growth phase a founder’s assertiveness is still strongly pronounced. Also, formalism is still on a lower level which allows engaged employees freedom.

The main task here is to readjust the organizational and leadership structure, the structure of a reporting system, and the provision of sufficient capital. A reporting system is needed to support fast and number-based decisions. The provision of sufficient capital should finance expansion. The divergence of the two main systems – vitality cycle and life cycle - cannot be avoided during this phase, however it can be directed through initiative taking founders.

Founders with less initiative tend to prevent the emancipation process of the company from themselves. On the one hand, a person-oriented focus shapes personal appreciation and perception of the employees which is why many motivational reserves can be accessed. On the other hand, successful founders tend to continue their family companies in an autocratic way even though accomplishing every day's life is overloading and no time is given for smart strategic decisions. An autocratic leadership style and rare involvement of external business owners result in the absence of important competencies on a management level.
The founder becomes a speed bump for growth as his risk appetite, speed, and customer orientation diminishes. Founders tend to be in this position not out of lack of creativity but due to the lack of confrontation with developments of the recent time. Thus, according to Klein (2004) the business life cycle needs to be separated from the market life cycle in order to accomplish the revitalization process during the transition into the maturity phase. (Flow A)

Maturity phase:
In the maturity phase, Klein (2004) differentiates between family businesses which are dependent on their main revenue driver or between family businesses which already succeeded in diversification.
Family businesses which depend on the main revenue driver need to work on a new strategic approach to survive on the market because its initial vision is no longer powerful.
A founder is required to be self-critical about his/her actions and about their entire life's work as part of their family strategy; a situation which is unusual for employees and managers.

In addition to that, the insufficient strategic qualification of the management team interferes an entrepreneur's initiative because if an entrepreneur leads its company in an autocratic way and a group of executives is still listening a strategic redirection is almost impossible.
Consequently, the emerging family conflicts due to a strategic redirection is the vitalization outflow whereas vitalization potentials are the installation of monitoring and advisory body and an anchored value system (Klein, 2004).

The second group, the diversified family businesses, are like non-family businesses. The main vitalization deficits are here the difficulty to get competent executive personnel, increasing distance between owner and company, and insufficient communication within the family. The main vitalization advantages are here the patience while working on new market entries, clear rules on ownership interests, and long-term orientation towards the family (Klein, 2004).

Turning phase:
A family business gets into the turning phase if the family-enterprise-specific vitality deficits still exist. Previously latent conflicts turn here into severe crisis. (Flow B) Possible reasons for that are a shrinking market or the inability of an owner to take a crisis seriously until it is too late. Hence, the only options for a possible outcome are a turnaround, skim strategy, bankruptcy, sale, or the slow death of the family business (Klein, 2004).

The author concludes the discussion of her life cycle model with the assessment that the constitution of the family-specific vitality potentials and deficits mark the difference to non-family enterprises. In her eyes, the research area of business administration is not able to solely explain a family businesses' behaviour due to its dynamic approach. Hence, business management related explanations can only be understood if psychological and sociological findings of the three systems – family, business, and ownership are included (Klein, 2004). Due to the different development rhythms of the family and the company system, to manage just the company system will never be sufficient which is why an active synchronisation of the structurally coupled development logics is required (Brückner, 2017).
However, Klein (2004) also states, that despite numerous findings, there is still no holistic theory that explains the development of family businesses (Mertens, 2009). This also correlates with the previously mentioned definition problem of family businesses. Here, as well, the causes lie in strongly divergent conceptual and methodological approaches whereas only a small number of findings are generalized. Under these circumstances, further research is not only helpful but urgently required (Stewart & Hitt, 2012).

2.2. Succession in Family Businesses

As the master thesis focuses on succession in family businesses the second part of the literature review needs to focus on succession.
The chapter is structured as followed: First, a short introduction is given in order to capture the importance of succession. Second, key terms are defined. Third, succession process, succession planning, and succession alternatives are explained as they are all highly relevant and interrelated topics when managing successfully succession.

Succession is the key element of a family firm because its future existence crucially depends on it. Hence, one of the fundamental missions of a family company is to hand over the business to the next generation (Davis, 1986). According to Handler (1994) and Morris et al. (1997), succession is considered as the decisive threat to business continuity in family businesses. It is so complex that multiple opinions and perspectives are addressed to understand this wide issue (Le-Breton et al, 2004). The family business literature claims that succession is the most researched topic (Poutziouris et al., 2006) because any family business who wants to survive will face it (Handler, 1994). Succession is described as a high-risk proposition (Solomon et al., 2011) because only 32% of family businesses survive to the second generation, 10% the third (Beckhard & Dyer, 1983a; 1983b) and only 3% the fourth generation (FBA, 2014).

Several scientific disciplines have dealt with the manifold facets of the phenomenon of business succession. A basic structure, let alone a theoretical framework, is difficult to discern. Nevertheless, the current state of research is going to be presented in the necessary brevity and with a minimum systematic approach.

2.2.1 Definitions of succession, incumbent, potential successor and succession process

In this research paper, the basic terms of *succession*, *incumbent*, *potential successor*, and *succession process*, are defined as followed.

Succession "refers to situations where both the incumbent who relinquishes managerial control and the successor who takes it over are family members (i.e., related by blood or by law)" (Massis et al., 2008, p.184). Beckhard and Burke (1983) define *succession* as "the passing of the leadership baton from the founder-owner to a successor who will either be a family member or a non-family member; that is, a 'professional manager'." (p.3). Other researchers divided the "leadership baton" into the two spheres of management and ownership (Barry, 1975). An example of such definition is provided by Handler (1989) who describes succession as the generational change in family businesses which is consequently the transfer of management power and capital responsibility. For the purpose of this study the definition of Handler is going to be used.

An *incumbent* is defined "as the person who holds the top management position in a family business and who must relinquish that position before another family member can take over" (Massis, et al., 2008, p.184).

A *potential successor* in a broad way "without judgment, willingness, ability, training, or resources […] is any family member who could assume managerial control of a family business when the incumbent steps down" (Massis et al., 2008, p.184).

Succession process is defined "as the actions, events and developments that affect the transfer of managerial control from one family member to another" (Massis et al., 2008, p.184). The period of a succession process includes t_0 when a single individual, sibling partnerships or cousin consortiums forms the intention for succession and t_1 in which the incumbent relinquishes managerial power (Gersick et al., 1997).

2.2.2. Succession Process

In the literature, many theoretical models deal with the development and selection of the family business successor. Since succession is not a single event but rather a process with several prearrival and post-arrival stages (Gordon & Rosen, 1981) it is possible to determine characteristic problems during these phases (Handler, 1994). Generally, the factors that let a family business grow from an early stage to a later stage are ongoing personal skills, organizational development, and the family itself (Davis, 1986).

Longenecker and Schoen (1975) were the first ones to illustrate the succession process based on a diachronic framework. That framework includes seven stages that describe the normal way of a succession process. In detail, the first stage is called *pre-business* and describes the informal socialization process of a child that becomes aware of the family business. The second stage is named *introductory* because a child gets formally introduced to the firm by the incumbent and other family members. From now on the child is exposed to business jargon, employees, and the business environment. Stage three is called *introductory-functional* as the off-spring usually joins the family business as a part-time employee. During that time the off-spring graduates and often works parallelly part-time in another company.

In stage four, which is named *functional* the potential successor turns into a full-time employee at the family business, now handling all non-managerial positions as well as its own initial assignment. Stage five, which is called *advanced functional* is achieved if the potential successor gets a management position and includes all other managerial positions before becoming a leader. In stage six, named *early succession*, the successor becomes dejure head of the company and assumes the presidency. Finally, in stage seven, the *mature succession* one, the potential successor is becoming the actual successor. As head of the company, the successor is now autonomous towards the incumbent and has the control over the company.

According to Handler’s study (1990) succession is a mutual role adjustment process between predecessor and next-generation family member.

Over a period, the founder or owner consecutively hands over responsibility and power to the successor, who gets more and more involved in the family business. The succession process should proceed parallelly. However, it often is the case that the role adjustment deferred because the founder or owner holds onto the former role as leader for too long.

As illustrated in Figure 6 both parties will embody new roles and must adapt to this process accordingly for the role adjustment to go smoothly.

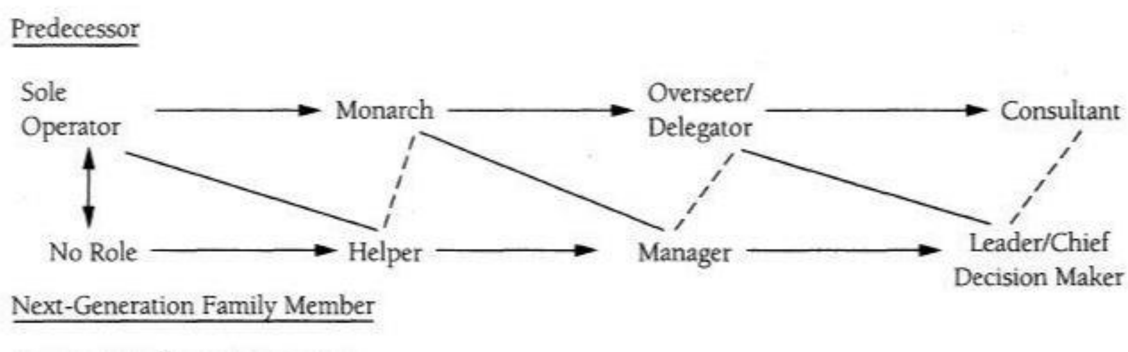

Figure 6 - The Succession Process: Mutual Role Adjustment Between Predecessor and Next-Generation Family Member(s) (Adapted from Handler, 1989, p.194)

Handler (1990) explains that during the process the successor should gain leadership experience, authority, decision-making power, and equity.

This encompasses that the predecessor changes from sole operator to monarch, to overseer or delegator and will finally be functioning as an external consultant.

During the period of being sole operator, the predecessor is the central figure in the family business. Once, the transfer into the so-called monarch position is concluded the predecessor gains preeminent power over all family and non-family members in the business.

For the duration of the last stage the predecessor’s only job should be to function as an external consultant due to the retirement from the company.

While the predecessor turns into different roles, the roles of the successor changes accordingly.

The successor starts out with an undefined role, becomes a helper over ascends to a manager position and finally build his career as the leader. Handler’s illustration (see Figure 6) shows, that from the successor’s perspective moving onto the next phase depends entirely on the willingness and ability of the predecessor to relinquish responsibility and power.

Furthermore, Handler found that most predecessors never achieve the overseer or consultant stage because of their inability to let a successor have increased power. Based on that insight, Sonnenfeld (1988) determined several different retirement styles for founders or CEOs. Sonnenfeld (1988) describes them as followed: A *monarch* does not leave the family business until he or she is forced out or died. A *general* can also only be forced to leave the business but would return anyway if an inadequate successor is leading the family business. An *ambassador* leaves the company without being forced and takes over an advisory role. A *governor* rules for a certain time and moves on to other opportunities and ventures. In addition, based on Levinson’s (1974) findings predecessors often select successors which are bound to fail. Keeping in mind that the founder or CEO chooses the successor, Levisons identified three types of unsuitable successors: *loyal servants*, *watchful waiters*, or *false prophets*.

Handler (1994) summarizes, that a loyal servant “is a conscientious helper but an incompetent leader”, whereas a watchful waiter “is a star performer from outside, who must wait, sometimes indefinitely, for power to be granted." The third inadequate successor is someone who "is a person whose area of competence is not related to the role required and, therefore, is an unrealistic choice for succession." (p.139)

A good relationship between successor and predecessor is a critical determinant of the succession process. A founder or CEO perceives retirement and succession issues like a loss of heroic stature and mission. (Sonnenfeld, 1988) Hence, adjusting attitudes regarding retirement and succession is an important factor to smooth the succession process. (Rosow, 1963)

A resisting founder’s attitude can only be positively influenced towards succession if someone can increase his self-awareness (Hall, 1986) or convince him to leave the company to build something new (Zaleznik & Kets de Vries, 1985).

Finally, according to Pyromalis and Vozikis (2009), a prosperous succession process depends on the two dimensions of *satisfaction with succession* and the *effectiveness of the succession process* (see Figure 7).

Five critical success factors are distinguished that influence and assist the succession outcome: (1) The incumbent’s propensity to leave, (2) the willingness of the successor to take over, (3) positive family relations and communication, (4) succession planning and (5) successor’s appropriateness and preparation.

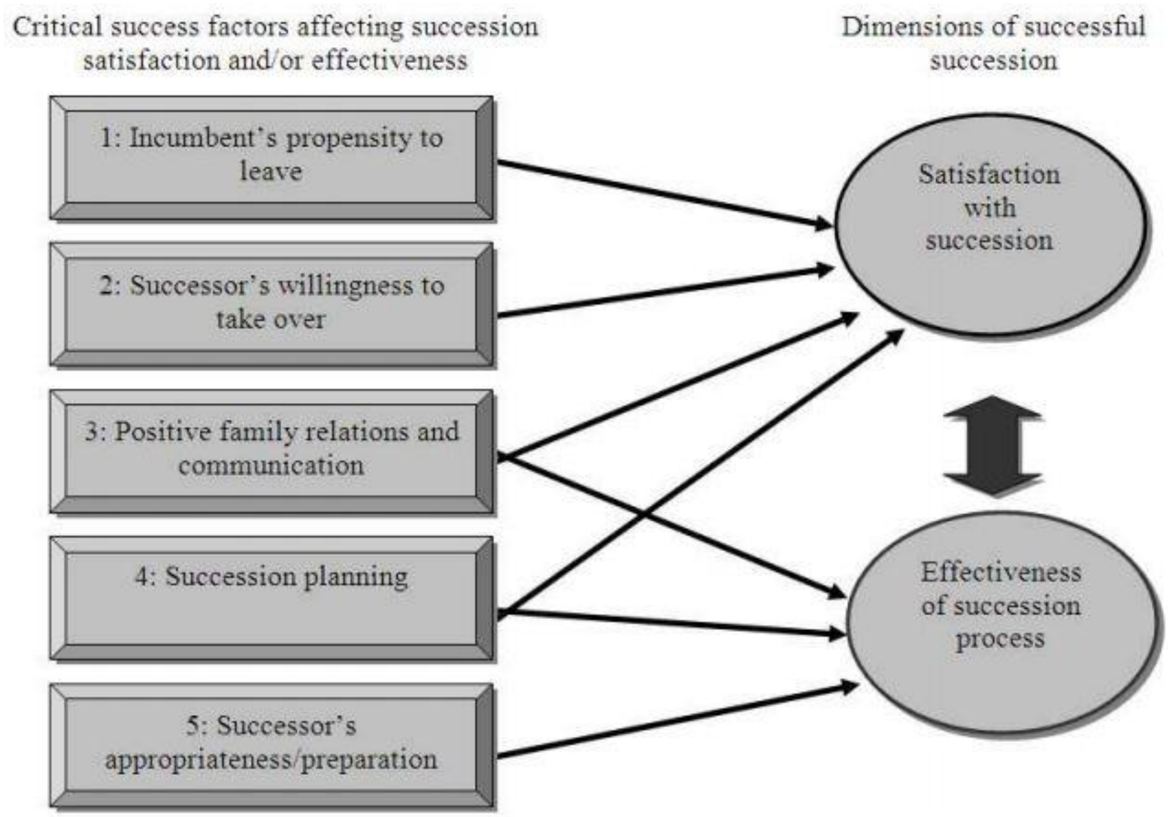

Figure 7 - Conceptual Framework of the direct and indirect influences of the critical success factors in the succession process (Adapted from Pyromalis & Vozikis, 2009)

(1) The propensity of an incumbent to leave the family business is directly correlated to the satisfaction with succession. Concretely, that means a high propensity of an incumbent to leave the business will affect satisfaction with the succession process in a positive way and vice versa. This "propensity" however, faces multiple influencing factors that prevent an incumbent to leave. One of the most cited issues is the fear of an incumbent to lose power, identity, and status. A founder or CEO of the family business fears not only to lose power in the company but to automatically lose power inside the family once the leadership position is withdrawn. This fact may explain why one third of all incumbents stay involved in the business even after retiring (Pyromalis & Vozikis, 2009).

An incumbent's propensity to leave is also affected by their own relation with the family business. From their point of view, withdrawing from the active business means losing a piece of personality and a specific way of life. Based on that, Allen and Langowitz (2003) learned that 13.4% of family members claim that the incumbent will never leave the company.

(2) The successor's willingness to take over is evidently another crucial factor that is correlated towards a satisfying succession process. Researchers have discovered that *commitment to the family*, *maturity of the successor* and the *degree of responsibility a successor will have* are the

three depending variables that either affect the will of a successor to take over negatively or positively. In other words, if a successor is not committed to the family, not mature and the degree of responsibility is too high he or she won’t be willing to take over the company. The same accounts vice versa (Pyromalis & Vozikis, 2009).

(3) Positive family relations and communication is a factor that is influential to both the satisfaction and the effectiveness of a succession process. According to Dyer (1986) sharing the same values and demonstrating mutual respect increases the chance of a positive and effective process. Besides, an open communication in the business, as well as during the succession process creates trust and enables all people involved to know what to expect and which role to embody. If all stakeholders know where they stand conflicts and rivalries can be prevented.

(5) The successor’s appropriateness and preparation are directly correlated towards an effective succession process. Variables such as leadership experience, management, and/or entrepreneurial skills, as well as educational background are crucial factors that an appropriate successor should possess (Morris et al., 1997). Regarding a successors preparation it is crucial to involve the successor as early as possible for him to gain experience and to create a sense of commitment towards the family business. It is highly important that a potential successor identifies himself with the company and creates a positive relationship with positive experiences (Pyromalis & Vozikis, 2009).

As noticeable by the numeration the fourth factor *succession planning* so far has not been discussed. While going through family business research it seems that succession planning needs a more thorough elaboration due to its manifold research interest. Therefore, the next section will explain succession planning, examining its importance and highlight the factors that affect such a succession plan.

2.2.3. Succession Planning

It became evident throughout the literature that a typical element for family businesses is the intertwining concept of ownership and leadership within one individual or spread over the family. Succession planning thereby cannot be limited to a leadership change but must at the same time comprise the transfer of ownership rights. Thus, succession planning includes the process of transferring both leadership and capital responsibilities to a successor. The transfer of leadership and ownership can be both synchronous as well as time-shifted. However, the transfer of ownership shall take place no later than with the death of the predecessor (Freund, 2000).

Succession planning aims to prepare changes in a planning manner, which are either caused by the voluntary withdrawal or by the death of a sole proprietor or partner and affects the private and corporate environment. Furthermore, succession planning involves the selection, preparation, and examination of the ultimate suitability of the successor. Parallelly, succession planning must consider especially the ownership part. Specifically, the economic care of all people involved in the family business is an important factor to have in mind. Furthermore, succession planning includes measures to ensure business continuity in which the establishment of an advisory board is an example (Albach & Freund, 1989).

Within succession planning, the time aspect plays an outstanding role. Firstly, even for a planned transition due to retirement reasons, succession planning takes at least ten years. Secondly, forward-looking succession planning protects the company from unexpected risks that could occur through sudden death of the predecessor, family disputes or divorce. In addition to the time dimension, a further challenge lies in fully capturing the diverse, complex ideas and wishes of the people involved in the succession plan. Hereby, the most occurring elements to consider are: care of oneself; care of spouse and children; the preservation of existing assets especially in the case of family property; avoiding communication of heirs and their often protracted and difficult disputes; and lastly severance pays for heirs who are not interested in working for the company (Hofmann, 1996).

Hofmann (1996) further states that it is necessary to consider these “wishes” in the best possible way, otherwise conflicts are inevitable.

This statement is approved by Freund and Schmidt (1989) who argue that succession planning must maintain the consensus of the ones who are involved. Otherwise, if the involved persons get into disputes it can result in delays or complete failure of the succession strategy.

Under that premises, the following section is going to elaborate on aspects that affect succession planning positively or negatively.

Factors affecting succession planning

According to Landsberg (1988) succession planning can be explained as an ambivalent approach because it "imposes a wide variety of significant changes on the family firm: family relationships need to be realigned, traditional patterns of influence are redistributed, and longstanding management and ownership structures must give way to new structures"(p.121). In Landsberg’s opinion, all involved stakeholders have their own reasons not to plan for succession. For example, a founder fears loss of power and identity when retiring from the firm. According to Landsberg’s theory family businesses usually deal with succession when a certain phase of the family business life cycle has been reached. Typically, the founder ignores the topic of succession until it is too late or is close to retirement. The reasons for this type of behaviour vary and range from death or illness of parents to coping with one's children leaving home. Dealing with succession is often a difficult situation because it forces the parents/founder to favour one child over another which in the worst-case scenario can perish whole families.

Handler (1989) supports Landsberg's theory of succession planning in many ways. Succession is a conspiracy where the four levels: individual, interpersonal group, organizational and environmental levels play an essential role in either promoting or reducing resistance to succession.

Hence, Handler’s (1994) widely recognized research paper on Succession *in Family Business: A Review of the Research* is the main source of this chapter as it gives an excellent overview of not only the involved factors but also explains the factors according to each level. Figure 8 shows all the different influences structures according to Handler’s four levels.

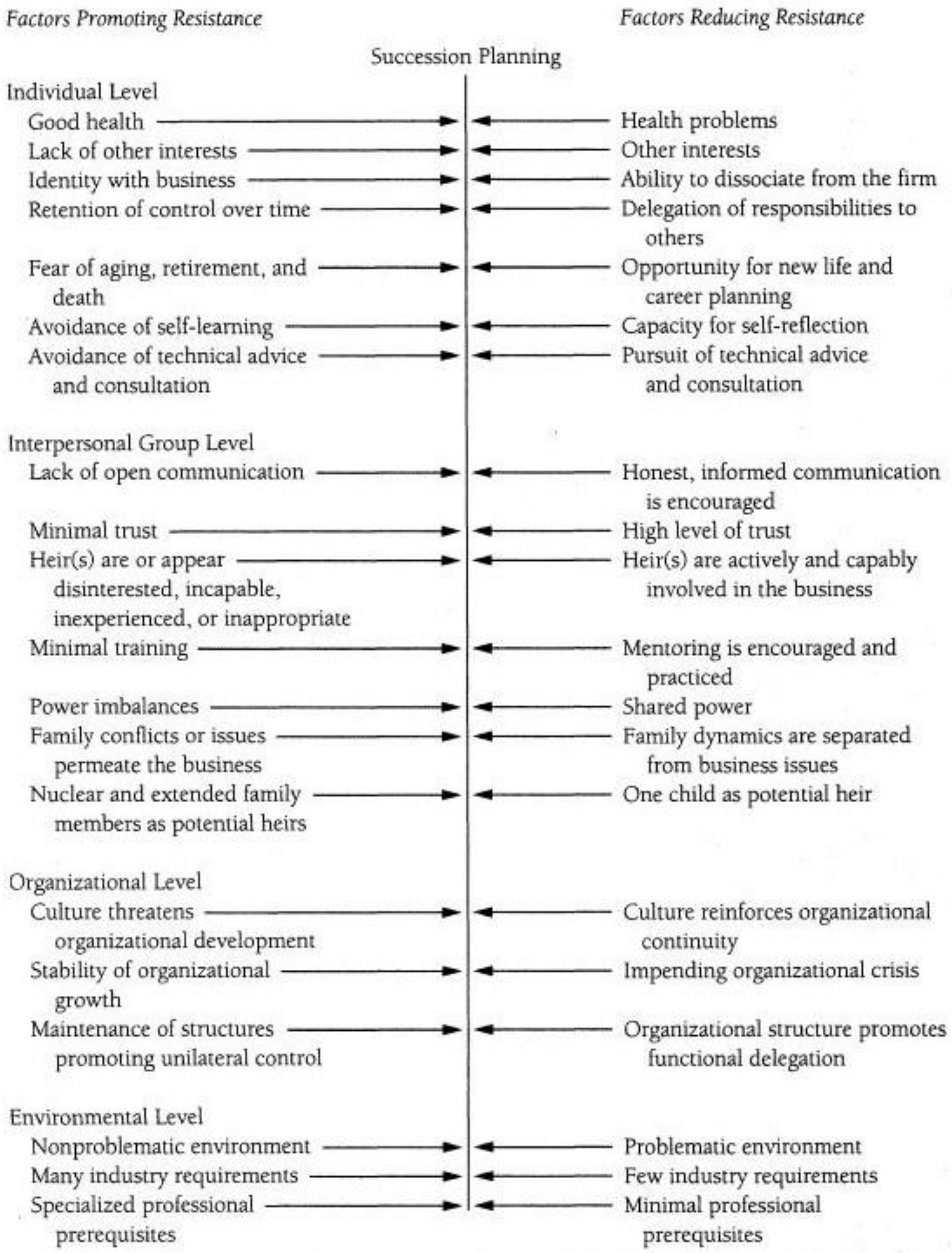

Figure 8 - A Model of Resistance to Succession in the Family Business (Adapted from Handler, 1994, p.146)

It becomes clear that the basic tasks for a succession plan involve educating the business family in such a way that future responsibilities and rights are clearly defined so that they can resume their legitimate positions when the next generation is in charge. This planning is based on open communication, whereby a future vision should be formulated and shared in which the prior CEO/founder has no more decision power.

Another fundamental task for succession is finding a suitable successor and the provision of proper training for the new position and the higher-level management. As already explained in the succession process section it is inevitable to design a process in which actual power transfers from the predecessor to the successor. Again, all these tasks require communication at a very early point so that the involved family members can discuss succession together and on different levels (Landsberg, 1988).

Once again, the institutional overlap of a family business - here in form of Handler's (1994) individual, interpersonal, organizational, and environmental levels - underpins the challenging manoeuvre of managing family business succession.

Looking back at Handler (1994) mutual role adjustment where the next generation member is slowly eased into the company the topic of intra family succession finds its actual application here.

2.2.4. Intra-Family Successor

The literature on intra-family succession says that most founders/owners wish to have not only a capital but also a management succession coming from the family. That is easier said than done.

Although almost 90% of entrepreneurs have children (LeMar, 2001), only 50% of them find an appropriate successor (Albach & Freund, 1989).
One reason why only 50% find an intra-family successor is the fact that family business entrepreneurs are often more critical towards their children's qualification than external third parties (Freund, 2000).
An intra-family successor must require sufficient professional and personal qualifications and the necessary level of motivation to become the next family business leader. Without these prerequisites, the high workload and full commitment towards the company is unthinkable in the long run. Therefore, a high level of professionalism is a must (Freund, 2000).

May (1998) argues, that from a subjective perspective it is very difficult to determine if an intra-family successor is the best alternative for the company.
Two ways to ensure that the potential successor is the right fit for the company would be the appointment as managing director or the temporarily leasing of the company (Menke, 1998).

Another critical aspect to mention is the new conflict potential/situation families often face when the retired CEO transfers most of the business assets without consulting involved family members (Cliffe, 1998).

In that way the previous CEO ensures that the next successor gets all the power which is needed to influence decisions and to lead a company. In the case, that a senior has more than one child the usual way to "compensate" the other family members is by distributing private assets and if necessary with a minority holding in the family business (Flick & Kappe, 1997).

Despite all that, Braun (2000) highlights the fact, that even becoming the new CEO of the family business the senior entrepreneur stays present in the company and tries to exert influence on company's affairs. This paragraph showed that intra-family succession is a challenging endeavour. Hence, the next paragraph details the most crucial factors that ultimately prevents an intra-family succession transition.

2.2.4.1. Factors preventing intra-family succession

Chua, Chrisman & Massis (2008) developed a model of factors based on a comprehensive review that might prevent an intra-family succession.

They identified three exhaustive but not mutually exclusive causes that avert a previously intended succession from taking place: (1) all potential family successors decline the management leadership of the business, (2) the dominant coalition rejects all potential family successors, and (3) the dominant coalition decides against family succession although acceptable and willing potential family successors exist. Moreover, five dependent categories are affecting these causes. Those are: individual factors, relation factors, context factors, financial factors, and process factors. By looking at the relationship between the three causes and fives factors it can be observed that succession might not take place in the end-(see Figure 9).

The individual and relation factors are a directly influencing cause (1) and (2), context factors are linked to causes (2) and (3) whereas the financial factors only affect cause (3).

"Process factors are moderators of the individual and relation factors since they strengthen or weaken the association between these antecedent factors and the direct causes of succession not occurring" (Massis et al., 2008, p.185). Even though it is not seen in Figure 9, the factors must be interactive.

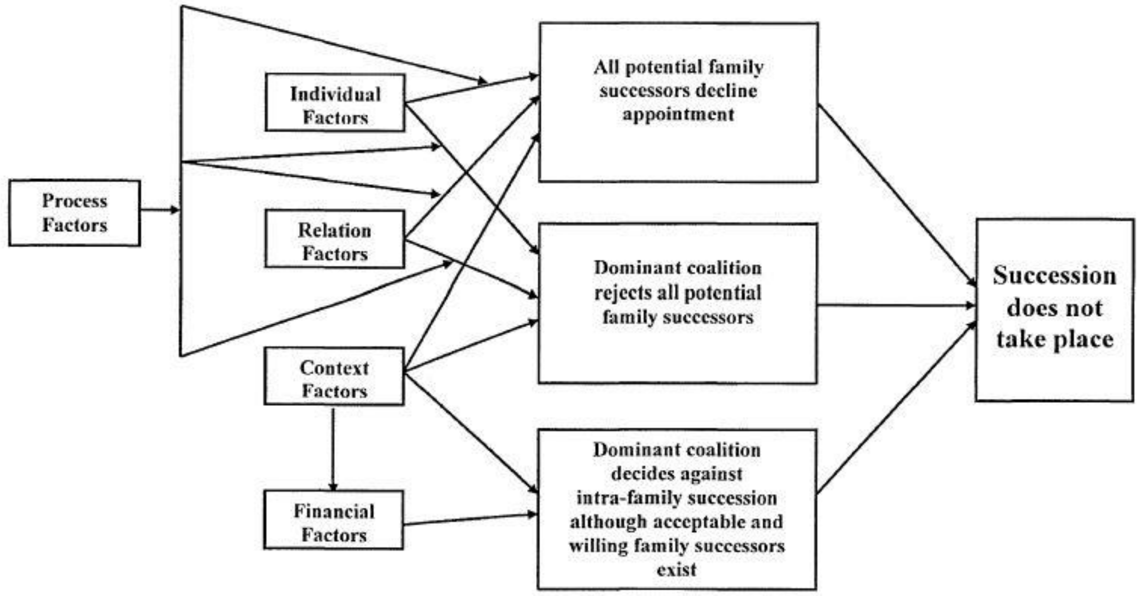

Figure 9 - A Model of the Factors Preventing Intra-Family Succession in the Family Firm (Adapted from Massis et al., 2008, p. 186)

Process factors are related to the absence of good actions or the presence of bad actions that prevent succession. In the subcategory *Establishment of the preparatory activities,* these factors are related: (1) not clearly defining the roles of the incumbent and the potential successor(s) and (2) not communicating and sharing the decisions related to the succession process with family members and other stakeholders. In the subcategory *development of successor(s)* the factors (1) incorrectly evaluating the gaps between needs and potential successor's abilities, (2) failing to train potential successor(s), (3) late or insufficiently exposing potential successor(s) to the business, and (4) not giving the potential successor(s) sufficient feedback about the succession progress, are mentioned. The last process subcategory *selection of successor(s)* encompasses the factors (1) not formalizing rational and objective criteria for selection and (2) not defining the composition of the team in charge of the assessment of potential successor(s)

In the context of individual factors which are related to the profile and/or motivation of the single individuals, there are two subcategories. *Successor(s) related factors* are the low ability of potential successor(s), dissatisfaction/lack of motivation of potential successor(s), and unexpected loss of potential successor(s) (e.g., death or illness). *Incumbent-related factors* are the personal sense of attachment of the incumbent with the business, the unexpected, premature loss of the incumbent (e.g. death or illness) or the unforeseen remarriage, divorce, or birth of new children of the incumbent.

Relational factors describe the relationship with/among family and nonfamily members which are involved in the family business.

The subcategory *family members* consist of these factors (1) conflicts/rivalries/competition in parent-child relationship, (2) conflicts/rivalries/competition among family members (e.g. sibling rivalries), (3) perils related to high “consensus sensitiveness” of the family business, (5) lack of trust in the potential successor(s) and (6) lack of commitment to the potential successor(s). In the subcategory *nonfamily members* these factors are to be considered: (1) conflicts between incumbent/potential successor(s) and nonfamily members, and nonacceptance of the potential successor(s) among nonfamily members, (2) lack of trust in the potential successor(s) and (3) lack of commitment of the potential successor(s).

Financial aspects are a further reason why succession does not take place. This issue is related to inadequate internal financial resources and excessive opportunity costs associated with raising external financing. Hence, the inability to sustain the tax burden related to succession, the inability to find financial resources to liquidate the possible exit of an heir(s), and the inadequate financial resources to absorb the costs of hiring professional managers are crucial.

The last category of context factors is related to changes in the political-economic environment in which the family firm operates. Therefore, the context factors can be either a change in the business performance, a decrease in the scale of the business, or the loss of key customers or suppliers or the decline of the relationship between the potential successor(s) and customers or suppliers.

2.2.4.2 Succession Alternatives in Family Businesses

If a family business is not in the position to find a possible intra-family successor there are four different succession alternatives: (1) external management, (2) business independence (3) company sale or (4) turning the family business into a foundation.
In alternative one the family business can opt for external management. Thereby, two options are possible. Either the family company can be leased to a non-family executive or the management can be transferred to an external manager. In alternative two a company can gain its independence if the owner of the family business decides on a management buy-out, a management buy-in, or an initial public offering. During a management buy-out situation, the family business is sold to an internal manager whereas during a management buy- in situation, the family business is sold to an external manager. In alternative three the family entrepreneur can either go public or sell the company to a third party. Finally, in alternative four the family business can be transformed into a foundation (Stephan, 2002). All the listed alternatives give a family business owner the opportunity to continue its business even under the circumstance

of either a non-existing intra-family successor or the unwillingness of a potential intra-family successor to take over the company.

3. Empirical Study

The second half of the master thesis focuses on the empirical study which ultimate goal is to answer the research question. Hereby, the first step towards achieving the goal is to elaborate the methodology part. In other words, the elaboration of methods used in order to answer the study question. The following part will focus on a research model designed by Saunders, Lewis and Thornhill (2009) and is known as “research onion”. The research onion model (Figure 10) illustrates in a precise way all elements, which has to be considered in the methodology part. It aims as a guideline throughout the chapter and has therefore a major influence on this paper.

3.1. Research Philosophy

The understanding of the research question and the associated research design depends primarily on a researcher’s philosophy. How a researcher views the world and deals with human knowledge shapes inevitable how he or she understands the research question. Saunders et al. (2009) differentiate between four philosophies that explain the presence of a research entity: *positivism, realism, interpretivism and pragmatism.*

The philosophical orientation of the current research study is based on interpretivism as it enables to gather rich insights into subjective meanings instead of aiming for law-like generalizations. Furthermore, this philosophical approach favours research about individuals rather than objects because it allows an empathetic stance to understand each individual’s social world. Thereby, research is value bound and implies that the essence of what is researched depends entirely on circumstances and individuals at a specific time. In that matter, the way data is collected and analysed involves most likely a qualitative method and a small sample size (Saunders & Tosey, 2012).

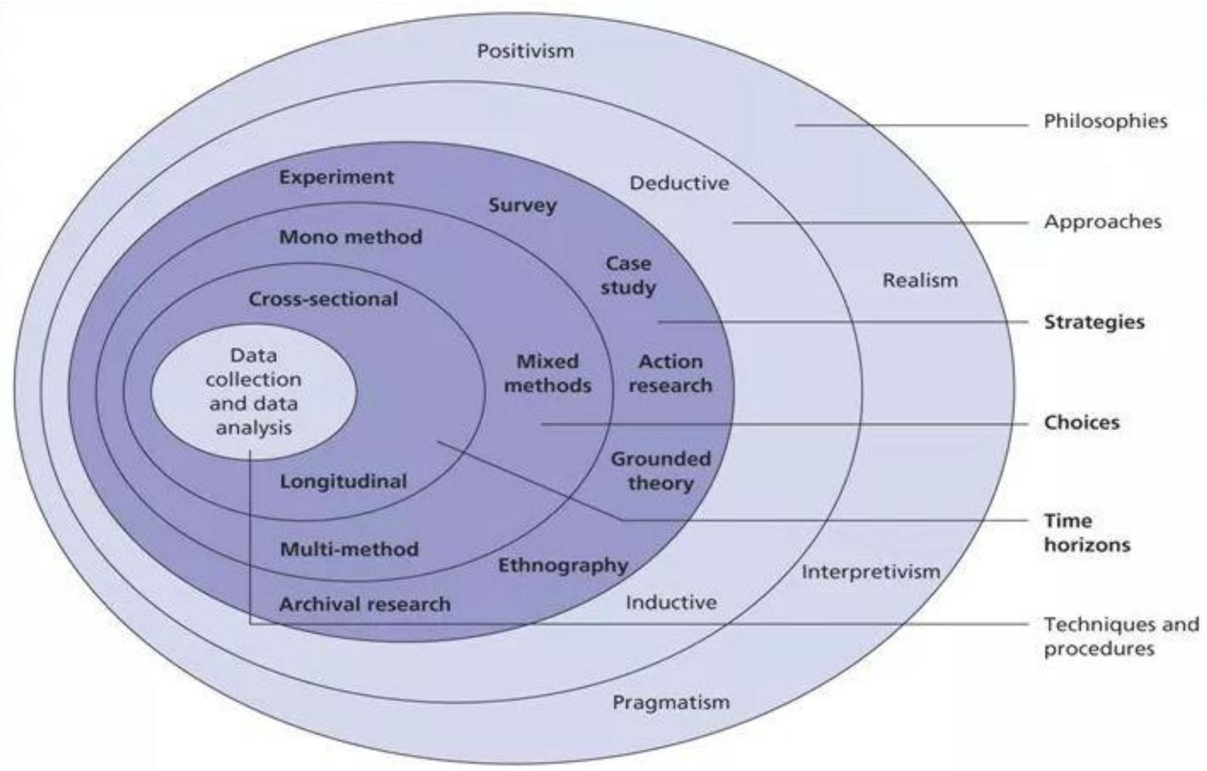

Figure 10 - Research Onion (Adapted from Saunders et al., 2009, p.108)

3.2. Research Approach

The chosen research approach influences the shape of the empirical study, its data collection and the way data are analysed. Saunders et al., (2009) explain in their book *research methods for business students* two common approaches how to relate theory to reality. These approaches are called deduction or induction. Deduction means, that previously existing theories are used to present hypotheses. Conversely, induction means to focus first on data collection and as result of the data analysis a theory is built. According to Saunders et al., (2009) it is not necessary to choose one approach over another. Choosing a mixed approach is an advanced way to draw conclusions on the research process enabling to cover up each approaches' limitations. In terms of the current paper the researcher chooses a combined approach because on the one hand existing theories can be used as guidelines to test the research question and on the other hand, a new theory can be built after collecting the data. In that way, a social phenomenon can be explained.

3.3. Research Strategy

Saunders, Lewis and Thornhill (2009) explain that when planning to answer the research question it is inevitable to choose your research strategy. A total of eight research strategies exist which encompass *experiment, survey, archival research, case study, ethnography, action research, grounded theory, and narrative inquiry*. Each of these strategies have their own advantages and disadvantages and it should be mentioned that the boundaries of those strategies are not static but permeable. Moreover, each strategy can be used for explanatory, descriptive and exploratory research. However, the selection of the right strategy depends on three factors: (1) the form of research question, (2) the control a researcher has over actual behavioural events, and (3) the focus on contemporary rather than historical phenomena (Yin, 2009).

For the purpose of this paper a case study strategy is chosen. Before arguments in favour of this strategy will be elaborated, it is necessary to define the term case study:

"A case study is an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident. […] The case study inquiry copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result benefits from the prior development of theoretical propositions to guide data collection and analysis" (Yin, 2009, p.18). Sequentially, the goal of a case study is to investigate real life events such as organizational or managerial processes or complex social phenomena.

A case study design is the preferred strategy when: (a) "how", "why" or "what" research questions are posed, (b) the behaviour of those involved in the study cannot be manipulated, (c) contextual conditions are aimed to cover because you believe they are relevant to the phenomenon under study or (d) when boundaries between context and phenomenon are not clear (Yin, 2009).

Additionally, Bryman (2012) argues to use a case study approach when the case is about a single organization, a single community, a single family, a single school, a single event or if the case encompasses any kind of program or process (in an organization).

According to Yin (2009) there are four case study strategies based upon two dimensions: *single case v. multiple case*; *holistic case v. embedded case*.

Researchers select a single case in order to represent a critical, extreme or unique case. Furthermore, Bryman (2012) elaborates that "the basic case study entails the detailed and intensive analysis of a single case […] case study research is concerned with the complexity and particular nature of the case in question" (p.66).

Conversely, multiple case study researchers do more than one case study and implement a rather generalised approach as they try to find the same data in more than one case study.

The second dimension refers to the unit of analysis and is a very crucial element of any case study. Here it is necessary to understand precisely what your case (unit of analysis) is in order to proceed efficiently. An example for a holistic case study is when a researcher decides to focus on a company as a whole in terms of unit of analysis. The embedded case study goes one step deeper and "even though you are researching and are concerned only with a single organisation as a whole, if you wish to examine also a number of logical sub-units within the organisation, perhaps departments or work groups, then your case will inevitably involve more than one unit of analysis" (Saunders et al., 2009, p.147). Following this argumentation, the current paper follows a *single embedded case study strategy* as it is based upon one single family that founded a family business in which the succession process as a sub-unit of an organizational process is examined.

3.4. Research Method

The next layer of the "research onion" depends on methodological choices. Choosing the right method is a very crucial element for any research design. You can either choose a qualitative or a quantitative method or a combination of both. That being said, there are now a number of alternatives to choose from: *mono method quantitative, mono method qualitative, multimethod quantitative, multimethod qualitative, mixed method simple and mixed method complex*. A mono method quantitative design is useful to choose when data is collected through a questionnaire but is analysed statistically. A researcher who wants to collect data through in-depth interviews and analyses them narratively, should choose a mono method qualitative design. Alternatively, a researcher can choose multiple methods. The multimethod quantitative design exemplifies the possibility for researchers to choose more than one data collection technique (questionnaire and structured observation) with a statistically analyses. The same accounts for a multimethod qualitative design as here not only one data collection technique is chosen. He or she could use interviews and diaries. A mixed methods design allows the combination of qualitative and quantitative data collection and data analysis techniques. "This means the researcher could start with a qualitative data collection and analysis (for example, a series of focus groups to help determine the breadth of possible factors) and follow this with quantitative data collection and analysis (for example, a questionnaire to determine the relative frequency of these different factors); a mixed method simple design." (Saunders & Tosey, 2012, p.58). Finally, a mixed method complex design is an alternative to use quantitative analysis techniques to analyse qualitative data in a quantitative way. Simply said, "comparing statistically the frequency of occurrence of different concepts in in-depth interview transcripts between different groups" (Saunders & Tosey, 2012, p.58).

The methodological choice of the current research study is a mono qualitative method. This decision goes hand in hand with the above selected research philosophy *interpretivism* as data is most likely collected qualitatively and in which the sample size is a small one. In addition, the research primarily aims to understand the succession process of one single family business which a quantitative approach with statistically analysis is why is not suitable. Accordingly, the research paper follows a qualitative method in terms of data collection and data analysis. More precisely, data is collected through semi-structured interviews and is analysed through categorizing and sorting.

3.5. Time Horizons

The penultimate layer deals with the length of time a researcher takes to undergo with its research. As a result, the "research onion" highlights two different time horizons: *cross-sectional and longitudinal.*

A cross-sectional time horizon is used when a researcher answers a question or addresses a problem at a particular time. This time-horizon is most likely to select when doing a case study or survey. Alternatively, the longitudinal horizon is appropriate when a researcher has to collect data over a longer period of time to answer the research question or to address a research problem. Strategies such as action research, grounded theory, experiment or archival research are most likely to take on a longitudinal method.

In the case of the current paper the time horizon is cross-sectional. The case study is based on interviews that are conducted over a short period of time (9^{th}-14^{th} of December 2018).

3.6. Data Collection

Semi-Structured Interviews

As already mentioned above the case study is based upon a mono qualitative method. That means, that data is collected in a qualitative (interviews) and not quantitative (questionnaire) way. In general, there are three types of interviews: *structured, semi-structured, unstructured or in-depth interviews* (Saunders et al., 2009). For the purpose of this study, a semi-structured interview approach is used.

This type of interview allows non-standardised interview questions which are also called qualitative research interviews. While conducting semi-structured interviews it is common to have a list of questions and themes. This method allows at the same time a different order and a variation of questions from interview to interview. That means, depending on the organisational context a researcher can either omit or add questions during the interview (Saunders et al., 2009).

According to Erp (1992) semi-structured interviews enable participants to respond, comment or explain in an open matter. Hence, this method is advantageous as there are no predetermined answers which could influence the respondent. Answering questions openly may direct the conversation to new points of view and could extend the entire research. However, before conducting interviews it is necessary to ask for permission to record these. Last but not least, researchers are allowed to take notes during the interviews (Saunders et al., 2009).

Interviewee Selection

Yin (2009) explains that after selecting the case strategy, it is necessary to sample units within that case. In this single embedded case study, the interview partners are family members of the case company: *Luithlen Werke GmbH & Co.KG*

In order to understand the concept of family businesses and succession representatives from the third and fourth generation of the case company have been selected. As they are the only ones being able to give specific answers a non-probability sample with a purposive sampling method is adopted. According to Bryman and Bell (2015) that method allows researchers to select relevant participants to enrich and answer the research question. However, there are limitations regarding purposive sampling as the researcher takes an active role in selecting the sample compared to a random sample. By conducting this sample method, biases or a questionable credibility can be assumed. As this study refers to a qualitative strategy its validity or generalization is not jeopardized due to the relevance of the study question.

The interviewees are selected based upon the fact that they are the last managing directors representing *Luithlen Werke GmbH & Co.KG.*

- Dr Wolfgang Hermann Luithlen: 3rd Generation
- Wolfgang Luithlen: 4th Generation
- Christoph Luithlen: 4th Generation

Interview Guide

Before conducting interviews, it is necessary to develop an interview guide, as it helps to direct the conversation toward the relevant topics and issues the researcher wants to learn more about. Obviously, the aim of an interview guide should be to basically guide an interviewer through the interview. While going through the theoretical part of this paper, questions had been developed based on relevant theories and related themes. Hence, any question was either related to succession or family businesses or a combination of both. While preparing the interview guide questions are sorted by order and category. However, during the interviews and as they were conducted in a semi-structured way, the order of asking questions was rather irrelevant. Most important is that the interviewee is able to answer questions in an unconstrained way in which he/she can talk free of his mind. For example, all interviewees brought up themes which were supposed to be answered later. In that case, it was suitable to continue the interview from there and to come back to interview questions which may had been skipped before. That is why interviewing in a semi-structured way is very helpful because you allow yourself and your interviewee to talk as much as possible about related themes in an unconstrained matter. Also, not every interviewee got to answer the same interview questions because it is semi-structured and because every interview is different. In that case, the interviewee guide was used as a tool to not forget any relevant questions and to give orientation (Patton, 2002).

In the case of the master thesis the interview will start by a short introduction of each interviewee and an explanation of each interviewees' relevance to the case company. Before going into detail, it is also necessary to ask about a short genesis of the case company to understand in which sector and time the business was operating in.

After, the interview[3] is basically divided into two main focus areas, as it is already the case in the theoretical part: family business and succession. In terms of family business these questions will be asked in order to define the company as a family or non-family business and if it is rather a small, medium or big family business: How many employees did the company have?

[3] Interview questions are in Appendix

What is the legal structure of the company? What was the company’s annual turnover? How does the company’s ownership structure look like? Who is main shareholder?

Next, in order to understand the family and its business it is crucial to ask each interviewee about their personal challenges at the case company, as well as the evolvement of the family and the business throughout its existence. It is crucial to understand the history and development of the case company in order to analyse their vitality life cycle.

In the second half of the interview the interviewee should answer relevant questions about his succession: What do you understand by the term succession? How did your succession look like? Did your family has a succession plan? Would you say that you got trained/advised by your father?

Interview Preparations

Flying to the hometown Andernach of family Luithlen enabled me to conduct face-to-face interviews. Within roughly one week I was able to make all interviews. All interviews were conducted in German as talking in one’s native language enables to express oneself more efficient and clearly. After the transcription each interview was translated into English. The interviews took place in either one of the interviewees houses or offices. That ensured a quiet and focused surrounding. Each interview lasted 90 minutes and was recorded after asking for permission.

Ethical Considerations

According to Bryman and Bell (2010) it is very important to ensure the integrity, quality and validity of the research. Therefore, it is necessary to consider ethical considerations when doing a qualitative study. These ethical considerations occur due to the interaction between researcher and participant. Hence, the following ethical principles should be taken seriously and should be used as an “ethical” guideline.

First, avoid harm to participants. In other words, the researcher has to protect the confidentiality and anonymity of any interviewee who request it. Otherwise, it might happen that out of the interviewee’s answers harmful consequences occur. Anonymity can be also a positive factor as it allows participants to talk openly about subjects that would be otherwise remain out of bounds. Second, reassure that all interviewees are informed about the research topic and the process before initiating the interviews. It is also crucial to obtain consent about recording the interviews. Third, the right of privacy should be ensured. The actual research should not go beyond the agreed extent. Forth, deception has to be avoided. Meaning, the researcher has the duty to provide precise information of the research study as well as to inform the participants about relevant research techniques beforehand (Bryman & Bell, 2010).

3.7. Data Analysis Procedures

Kvale (1996) argues that data analysis occurs during and after data collection. Data analysis depends mostly of the data collection’s nature. Sequentially, as the data collection is based upon a qualitative approach (semi-structured interviews) data has to be classified into categories in order to be able to analyse fixed communication (transcripts, texts, images, notes, etc.) to then draw conclusions for answering the research question. The aim is to reduce the complexity of the material. This can be achieved by the help of a category system in which aspects are defined that appear relevant for the evaluation and are to be filtered out of the material (Meier, 2014). According to Kuckartz (2007) a category is understood as an identifier (or something significant) to which text passages are assigned. Parts of the text are thus arranged according to certain criteria and described by categories. These can be a single word (e.g. competence development) or a combination of several words (e.g. attitudes towards mother tongue teaching). The approach and the concrete steps of category formation as well as the number and structure of the category system vary depending on the research object and question, so that no generally applicable guidelines can be given (Meier, 2014).

Meier (2014) summarizes that there are basically two possibilities of category formation: the deductive and the inductive approach. How a researcher decides one approach over the other depends on the extent of his or her theoretical knowledge and his or her chosen survey instrument. Nevertheless, both approaches are controlled, and rule guided. Lastly, the two strategies are not mutually exclusive, so that a combination of both is possible.

In regard to the current research study the researcher applies a deductive categorization. In this context, categories are established and defined before the analysis of the data material. The aim is to extract defined elements from the material. A run through the entire data takes place with regard to previously decided structures. Based on these classification criteria a basic shape as well as a profile of the material is assessed. Developing an interview guide helps to form categories by important aspects and themes from the already known literature on the respective research topic and/or from the data collection instrument used (Meier, 2014).

Finally, it is absolute crucial to discuss the generalization concern when doing a single case study. A frequently posed question is “How can you generalize from a single case?” (Yin, 2009, p.10). Yin (2009) argues, “case studies, like experiments, are generalizable to theoretical propositions and not to populations or universes. In this sense, the case study, like the experiment, does not represent a ‘sample’, and the investigator’s goal is to expand and generalize theories (analytic generalization) and not to enumerate frequencies (statistical generalization) … (Yin, 2009, p.10). Researcher often explain that a case study’s analysis is rather about generalization and not particularization. Thereby, this paper focuses on an analytical generalization because “previously developed theory is used as a template with which to compare the empirical results of the case study” (Yin, 2009, p.31).

4. Historical Background

Hermann Viktor Adam Luithlen marries Luise Thusnelde Faber in 1892. They move from Stuttgart to Andernach (Rhineland-Palatinate) and start to play an important role in the social life of the city. Hermann Viktor Adam is one of their dignitaries and, as an exemplary Protestant, is a supporting pillar of the Protestant congregation. He is several times a presbyter and holds the office of church master for more than four decades. His wife Luise is one of the founders and members of the board of the Protestant Women's Association. At the same time, Hermann Viktor Adam joins a company that produces coffee surrogate in Andernach. This coffee surrogate company (Luithlen & Herzog) is successfully sold to Kathreiner[4] in 1896. Afterwards, he buys a piece of land, and a patent for the production of soup seasoning as well as a process for the production of dried vegetables allowing him to establish Fino Werke – a food supplying company. During the time of the First and Second Wold War (1914-1918 /1939-1945) Fino Werke becomes military food supplier. In 1947 his son Hermann Walter Luithlen establishes Baustoffwerke H.W. Luithlen. From now on, the company has two production areas. On the one hand, they are producing food (*Fino Werke*) and on the other hand they are producing building materials (*Rhemo Baustoffwerke*). After, his son Wolfgang Hermann Luithlen joins the family business and establishes *Unternehmensgruppe Luithlen* in 1970. During the time of four decades the parent company turns into *Luithlen Werke GmbH & Co.KG* including numerous food and building materials subsidiary companies. In the meantime, Wolfgang Luithlen and Christoph Luithlen join the company and mark a unique event as they

[4] Kathreiner AG, founded in 1829, was a German group of companies in the food wholesale trade. The best-known product was malt coffee. In 1998 the company filed for insolvency.

present already the fourth generation as intra family successors. The family business *Luithlen Werke GmbH & Co.KG* files insolvency in 2005.

5. Results and Analysis

In this chapter the main focus lies in the outcome of the interviews. More specifically, after having performed interviews in a semi-structured way, relevant categories had been figured out through the process of coding. The coding of the results had been executed in an inductive way whereas the most relevant factors are organized under each main finding.

5.1. Family or non-family Business?

Defining a family business is until today a challenging endeavour as researchers cannot agree on one universal definition. As already mentioned in the theoretical part it is difficult to define a family business as too many factors need to be considered at the same time. Nevertheless, for the purpose of this master thesis the following family business definition by Chua et al., (1999) is selected as it enables to encompass many factors:

"*The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a smaller number of families in a manner that is potentially sustainable across generations of the family or families" (p.25).*

Furthermore, it is relevant to mention, that the case company is from Germany, which is why the definition of the IfM (2017) should be mentioned. It says that a company is a family business if up to two natural persons or their family members hold at least 50% ownership of the firm, and in which these natural persons are also involved in the management of the firm.

Regarding the case company *Luithlen Werke GmbH & Co.KG* it is clearly a family business as it was 100% family owned and managed. Majority shareholder was Dr Wolfgang Hermann Luithlen, followed by his sons Wolfgang and Christoph Luithlen embodying together the dominant coalition of the same family. They also managed the company. In that case, shaping and pursuing the vision of the business was held by this dominant coalition. Besides that, the company had seven further natural persons who were all family members that held shares.

Moreover, the family business was sustainable across generations as it lasted for four generations.

The family business can be categorized as a medium-sized company with an annual turnover of 50-60 million € and an average of 150-200 employees. Its legal form was a GmbH & Co.KG, which is a special type of business in Germany as it is a limited commercial partnership (KG) consisting of a general partner (GmbH) and a limited partner (members of the GmbH).

5.2. Family, Business and Ownership

Closely related to differentiate a family from a non-family business is the existence of three subsystems; namely family, business, and ownership. Hereby, the ground-breaking work of Tagiuri and Davis (1982) is until today an exceptional support in understanding interest groups who express own interests, goals, concerns, and dynamics. The same authors claim that the long-term success of any family firm depends on the relations and mutual support of each interest groups, and that all logics must be aligned into a functioning and supportive matter to set future direction (Cambridge Family Enterprise Group, 2018). Section 2.1.3. provides an overview of the seven interest groups by Tagiuri and Davis.

Based on the interviews, the family business system of Luithlen Werke GmbH & Co.KG had several stakeholders.

Throughout its long existence the company had in peak times at least 350 and in low times 150 employees. These individuals fall into the category *non-family employees*. Besides the normal shift workers only a few non-family employees had procuration, which means that they were able to sign documents with special authorization according to commercial law. They were acting in the name of the managing director or co-managers, but still were not in the position to decide or manage major things. Thus, these employees had to follow the interests and decisions of the upper management.

Family employees were Dr Wolfgang Luithlen, Wolfgang Luithlen, and Christoph Luithlen before they turned into *family owner employees*. As the company lasted for more than 100 years it is obvious that family owner employees and family employees changed because they either passed away and/or distributed their shares to the next generation. According to the research findings at least twenty people can be put into the family owner category. However, due to privacy and anonymity reasons no detailed names are listed here.

Another stakeholder of the family business are *family members* which embody only one role. These are people who simply whether worked nor possessed shares of the company but are still part of the family. The best example is me. I am the granddaughter of Dr Wolfgang Luithlen and the niece of Wolfgang and Christoph. However, I have not worked in the company nor owned any shares. Besides that, my brothers and sisters, my cousins from the fifth generation and my parents can be put in the same category. My mother, Verena Gräfin von Plettenberg, maiden name Verena Luithlen, is the daughter of Dr Wolfgang Luithlen and sister of Wolfgang and Christoph. However, based on the family business system model she was only a family member as she was never actively involved in the family business.

Luithlen Werke GmbH & Co.KG had several subsidiary companies in Germany and abroad. Thus, external managers were hired. Nevertheless, they had no power of control and decisions were only made by the family owner employees. These external managing directors can be categorized as *non-family owner employees.*

The model does not only show different stakeholders that happen to be in a family business system but illustrates in a neutral way the power of roles. Besides that, it shows an overlapping system that can affect one another positively or negatively. For example, if the subsystem family is heavily arguing, it can affect negatively the performance of the other two subsystems. If the business is performing on a high-level, it can change the subsystem family in a way that it can create pride and in which the ownership system moves closer together (Cambridge Family Enterprise Group, 2018).

Based on the results, stakeholders from the case company also had different interests, viewpoints, or concerns.

Dr Wolfgang Luithlen said: "... It is very difficult when you are in such a position to please everyone. My uncle married a wife, who was very critical, so you could never please her. Never. At times when we a had a very decent yield you heard things like 'you must have earned quite well, if you are still able to pay out that amount' and at times when we had less yield you heard them say 'they are totally incapable'. You could never do it right and that was a terrible story." (Interview 3, p. 9).

In the same context Wolfgang said: "From a single individual who found a company, which later had become a relatively large group of shareholders, [this] is always a negative construct because the external shareholders who usually live far away have little idea of the actual business. But they would like to see a decent return on their share capital or invested capital. In relation to the first or second generation of a family business, which is purely about building up and keeping money together, it is in the following generations, that the needs from those family owners who are not active in the company must be met. So, this is a relatively difficult situation because these external shareholders hope or expect profit year after year and have little understanding if there are three or four years, that are bad" (Interview 2, p.5).

Most family owners also had different interests in terms of career choice. For example, one of them became a doctor. Thus, to finance medical equipment the family owner's interest was to receive dividends instead of keeping the money in the company. Conversely, the interest of any family owner employee is to keep the necessary liquidity in the company.

Stakeholders have different viewpoints for example how to make business. For Dr Wolfgang Luithlen it was important to be a social driven business man. Hence, his whole work ethic and motivation was based upon that inner constitution. Conversely, Wolfgang and Christoph saw many things differently. After the end of World War II, the company's food sector was in deficit and could not continue its success story from before. Therefore, the normal way would have been to close the food sector and to fire employees but instead the building materials sector subsidized the food sector until both sectors collapsed.

The following situation with the works council underlines Dr Wolfgang Luithlen social commitment towards his employees:

"…we had a few women cleaning windows and rooms, when the works council came up to me and said 'listen, these women are too slow, I would like to dismiss them, I have younger cleaning women who are faster'…so I asked him 'how long have these women been working at the company?' and the works council replied 'they have been here for the last 40 years' then I said 'we are not releasing anyone here' whereas the works council replied 'o.k. but then I can't guarantee the necessary profitability'"(Interview 3, p.14).

Dr Wolfgang Luithlen also said: "…we had contact with every employee and they would come with [their] concerns…even if [they] needed advanced payment because of a special situation" (Interview 3, p.7).

The diversity of the brethren in their personal views underpins the following quote from Christoph: "I was always the compliance officer / risk manager who…sees opportunities in many respects, but also risks, and tries to evaluate and manage them. My brother Wolfgang is more of a sales-oriented person who could sell anything to anyone" (Interview 1, p.6).

One of Christoph's major concerns in the company was its old-fashioned structures which were either apparent in the 90s or simply not there like IT or controlling at the turn of the millennium.

He said: "Investment controlling was one of the worst topics…if the accounting manager or me, we were always the ones who pronounced the risks, if we … said something goes wrong here then it was always like 'no, no, that's going to work'. So, that number substructure was missing. The senior recognized that. But unfortunately, he didn't hire a professional controller as he might have needed it back then" (Interview 1, p.4).

5.3. The Development of the Family Luithlen

According to Klein (2004) researchers indicate, that failed family businesses are typically caused because of the family structure and not the business itself. Simon (2012) argues that a family business survival often depends on its generation because the first three generations evidently have a stronger attachment to the business than multi-generation family businesses. A multi-generational family business is a company which has survived at least three generations (Simon, 2012). Hence, it is crucial to analyse the development of this particular family.

First, it can be stated that *Luithlen Werke GmbH & Co.KG* was a multi-generational family business as it lasted for four generations.

Second, according to Simon et al. (2012) the family organizational forms are based on a stage model in which the 1st generation is explained as nuclear family; the 2nd generation and 3rd generation are defined as clans and from the 4th generation onwords family members are distinguished as an extended family organisation.

The founder, Hermann Viktor Adam Luithlen, and his wife Luise (maiden name Luise Faber) are representing the first generation as "couple". They got 5 children: Erika, Hermann Walter, Gertrud, Wilhelm, and Lothar which are now representing the second generation "siblings". The third generation has eleven offspring and represent the field "cousins". The fourth generation sees family members as distant relatives and a total of 24 off springs are representing that family organizational form.

The family structure of Luithlen became very soon very complex. Within four generations at least 42 descendants were part of the family and many were involved in the family business. In order to get a better overview of the development of the family a family tree is provided in Annexe 4.

After the founder died, he equally distributed his shares towards his five children. Contrary to theory, in which the European inheritance distribution only starts from the third generation onwards (Simon, 2012), this phenomenon already happened in the second generation. The founder, Hermann Viktor Adam, wanted to hand over the management to his son Wilhelm.

Dr Wolfgang Luithlen said: “Wilhelm had no idea. He …did completely different things. Then it was effectively the case, that my father [Hermann Walter] said ‘I am going to stop immediately and let myself get paid off and do something else’.
Sequentially, Wilhelm approached his brother and said: ‘listen, I've heard about what our old man said, that's way too much work for me, forget it, you've got to keep doing this, there's no other way’” (Interview 3, p.10).

Simon (2012) states, that the second generation is very much guided by the motives of their parents so that their life’s work can survive. Based on the example above, that was here not the case. The one (Wilhelm) who should have continued the main management did by any means not want to fulfil his fathers (Hermann Viktor Adam) wish and the one (Hermann Walter) who had been working in the company would have decided to leave the company and to get paid off. In the end, the founder father handed over the main management to Hermann Walter because he actually was the right fit as successor. In that case, it is very arguable if second generation successors are strongly guided by the motives of their parents or if it is not the other way around.
Furthermore, Simon (2012) states that the second generation is less emotionally attached to the company than the first generation and that they would find it easier to hand over the company to others. Based on the interviews, that was here not the case either. It always depends on the human beings themselves and their interests and should therefore not be generalized.
Simon (2012) argues that with the increasing number of shareholders, the internal communication changes within a family business. He observed a shift from an informal to a formal communication within the fourth generation due to the complex structure of the company. On the one hand, the family business is more than ever confronted with extreme forms of conflicts. On the other hand, the creation of familiarity requires proper planning in which places and times for meetings must be scheduled. Based on the results, it is observable that the family structure of the company got very complex within the second generation. It is also observable that family disputes emerged and escalated in a way that until today different tribes of Luithlen’s are no longer talking to each other.

About the familiarity issue in multi-generational families Dr Wolfgang Luithlen stated: “Yes, it’s getting harder. We tried to solve that issue by organising a Christmas party in both areas, one for the companies and the other one for the administration. We invited all shareholders to that administration Christmas party. Additionally, we had once a year our shareholder meetings, which wasn’t always in Andernach [headquarter city of the Luithlen Werke]. We basically changed the location of the shareholder meetings as they lived across Germany. For example, we hold a meeting in Iphofen so that the Southern German shareholders didn’t have to travel too far. We covered for costs and accommodation …Of course, it becomes more difficult with each generation…” (Interview 3, p.8).

Wolfgang said: “When we were holding shareholder meetings 95% of the shareholders showed up. We had an article of associations in which the matter of holding a shareholder meeting was written down including deadlines. In that case, we were inviting all shareholders early enough to organize and plan. Occasionally, if one date wasn’t possible we found a new date because we always wanted to find a solution in which all shareholders could attend. The shareholder meeting lasted usually two days also with a … dinner in which everyone could present their points.” (Interview 2, p.20).

Another very crucial statement of Simon et al. (2012) is to whether multi-generational families can make decisions in unity so that a common direction of development can be achieved. That sounds very plausible in the beginning. If one takes a closer look it must be differentiated between family members and family owners. More precisely, a family businesses’ development can only be directed by co-shareholder or partners of family members who possess certain shares.

Based on the analysis, *Luithlen Werke GmbH & Co.KG* is a multi-generational family business with lots and lots of family members from different tribes of Luithlen. However, it must be clarified that only the family members who own shares are to be considered when it comes to the development of the family business. As already mentioned above the company had seven natural persons as shareholders.

Wolfgang said: “[External shareholders] didn’t decide anything operationally. You have the possibility to regulate things in an article of associations. You can always conclude an individual memorandum and article of associations, which normally regulates the business internally and externally and big things in a company are regulated in this memorandum and articles of association. First, there is the blocking minority of 25%, i.e. you have to have at least

25% of the votes to be able to decide certain things. Second, you could only decide big things like selling a company if you had 75% of the votes. So, if we had to make a big decision at some point, we needed my father, my brother Christoph, myself and at least one or two more of the external family co-shareholders to get over 75%. Only then you are able to say we sell company A or B or C or buy a new company in addition. So, there are very clear rules, but they are in every social contract of every company" (Interview 2, p.6).

Based on the analysis, Wolfgang talks about a common decision making process in the company: "…There are always dependencies in life and in the case of our family business, at that time I was already co-shareholder and possessed 8% shares …my father as the strongest shareholder had more than 50%, … he clearly had the say and there were three meetings in the course of the year where we discussed very sensibly and exchanged really well but where a decision had to be made… three or four times in the course of the year we heard the sentence 'I am the majority shareholder and somebody has to make the decision and I decide it now and I have to stand up for it'. So, my father finally made the decision, but which was normal for me because also in my position today it is the same in green. Even though I am managing director I have shareholders above me who are at the same time the owners of the company where I have to follow certain decisions and that is absolute logical and clear, and I would describe it as dependency relationship" (Interview 2, p.4).

Considering the presented examples and combining it with the statement of Simon et al. (2012) it is obvious that getting along with family owner employees and family owners is crucial in order to find a common direction for the development of the company otherwise big decisions could be blocked. However, in all other cases the majority shareholder could decide basically the fate of the company by himself.

In the beginning of this section, it was mentioned that family businesses tend to fail because of the family and not because of the business itself (Klein, 2004).

During the analysis of the interviews the following statements of Dr Wolfgang Luithlen underline this statement:" If I summarize all the arguments, then the company could no longer be held because of its family construction, but in connection with the special circumstances that prevailed here. In every other family company, you will hear something different. There are those who are calm, there are those who are active. I have to tell you, ultimately it depends on the family, because in the course of 100 years the family has pulled more money, more liquidity out of the company than would have been good. In our case, it was the fact that so much money was pulled out, also by the fact that family members wanted to leave the company and asked about the share worth due to the balance sheets of the last years...Unfortunately, my grandfather didn't pass on the company to one whereas the others would have just received money from the family assets as compensation...Let’s say one share is worth $250,000. Then you can pay it out in tranches but in the end, it goes out, but the company would need these liquid funds to stay within a reasonable range between equity and debt capital” (Interview 3, p.14).

According to Dr Wolfgang Luithlen the family construction played a significant role in the failure of the company. He would have favoured that one family member should have gotten the family business and the rest should have been compensated out of the family assets’ money. Instead of pulling out money year after year for each co-shareholder he would have preferred a one-time payment of the family’s assets in order to secure the company from those liquidity losses. He argues further, that to become main shareholder you have to pay for shares or to pay for the shares from the ones who want to leave the company.

“When I started – my father had given me a few percent – at the end of my career I had over 70%. My wife used to say, ‘you continuously work for it, and our reward is none’” (Interview 3, p.4).

Furthermore, he states that the huge problem about family businesses is succession:

“That is an insane problem to face. Another problem is that you have family members in the business which are not working there, either because they are not interested and want to pursue a different career or there is simply no work place available for them. Sequentially, that means that the financial structure is always critical as the ones who don’t work in the family business obviously have their own lives for which they could need money and of course they ask to get their dividends instead of keeping it in the company. That’s the problem of this construction. Hence the sentence: ‘the first generation is building, the second is increasing and the third is screwing it up’. The simple consequence of a growing company is, that you tie up a lot more funds and that is incredibly difficult or because a high level of profitability is required to finance that with your own funds” (Interview 3, p.3-4).

Dr Wolfgang Luithlen shared openly the following thought regarding family businesses: “In this respect, family enterprises are initially set up with the ultimate intention of eventually being dissolved” (Interview 3, p.10).

5.4. Life Cycle of Luithlen Werke GmbH & Co.KG

As we know a family business is divided into two social system – family and business. We understand that the family develops and grows into a much more delicate structure from generation to generation. As the family business does not only consist of the family it is now time to analyse the development of the second social system – its business. It is common knowledge that any organization is under constant change to stay competitive on the market. Thus, family businesses are no exception here. Furthermore, due to their unique organizational form they are forced to adapt even more as the natural growth of families change ownership structures (Simon et al., 2012). This is only one of many intertwining examples of a family business structure. It shows very precisely how complex family businesses are as both systems are changing constantly but not synchronously.

According to Klein (2004) only vital[5] family businesses are able to survive the internal and external factors of a life cycle (see Figure 5). Furthermore, she elaborates vitality potentials and deficits during five phases: pioneer, growth, maturity, turning and second growth phase. According to her, a company's business development starts with its foundation and ends with its decease. Based on the analysis, the business development of *Luithlen Werke GmbH & Co.KG* started in 1892 and ended in 2005. Hence, the following part is going to analyse those external and internal factors which were most vital or decisive during its 113 years of existence. Before presenting Luithlen Werke's life cycle it is helpful to see the organizational structure of the company (Annexe 5).

Pioneer phase: In 1892 *Herzog & Fuchs* searched for a new partner to join as Fuchs left the company. This new partner was Hermann-Victor Adam Luithlen who bought 50% of the shares due to his wife's fortune. The pioneer phase starts with *Herzog & Luithlen* producing a coffee substitute as most people couldn't afford normal coffee. They discovered this market potential with relatively low competition and became very successful. In 1896 Herzog & Luithlen sold their coffee surrogate product including machines to a food and beverage company called Kathreiner. From now on, they were no longer allowed to produce this specific product because Kathreiner paid for the allowance to produce it exclusively. Hence, Herzog & Luithlen came up with a new innovative idea and decided to buy a patent for soup spices as well as a method to produce dried vegetables. One realizes that the vitality potential of both entrepreneurs was

[5] Vitality describes the strength of a company to deal with disruptions and crises in such a way that it can ensure its long-term survival.

very high and lead to new market ideas to keep the business going. So far, no vitality deficits occurred. In fact, they made a substantial yield and went on to new markets. Around 1910 Herzog left the company and Neumann joined as partner which is why the name of the company changed into *Luithlen & Neumann*. In 1920 the company's name changed another time into *H. Luithlen Söhne*. Regarding the company's vitality one might think that its first external vitality deficit occurred during World War I but that was not the case due to the fact that the company became military food supplier. Thus, the company was able to survive during the war as their main customer was its military. As time went by, the food supply company (Fino Werke) hires more employees, increases revenue, and expands into foreign markets i.e. Holland and Italy. During the growth phase the company had succeeded into the second generation. From now on Hermann Walter Luithlen was managing director. However, during that time, the political situation had changed dramatically, and Germany turned into Nazi Germany from 1933-1945.

Dr Wolfgang Luithlen explained:" My father [Hermann Walter Luithlen] was not a member of the party. In 1937 it was said that either he would join the NSDAP[6] within the next 14 days or the state would withdraw all military orders from the company because they would not tolerate a managing director who was not a member of the NSDAP. Even though he was strictly against Nazi Germany he decided to join NSDAP in order to keep the company alive" (Interview 3, p.10).

Based on the interview you can see that the company survived because of Hermann Walter Luithlen's vitality potential to overcome this external threat. Again, even though he was absolutely against Hitler and the NSDAP he joined the party to keep the company to provide for his family and employees. Despite that, the company had a huge competitive advantage as they were able to provide food for thousands of soldiers. The company became an important operation for both wars. Soups and vegetables were regarded as basic food which is why in times of wars or crises the company did not only produce day and night but needed to expand capacities for the huge demand. One of the company's competitive advantage was its unique method to remain vitamins, spores and mineral salts during the drying process. This was necessary because at that time there was still no medicine for scurvy[7].

Dr Wolfgang Luithlen: "We had to squeeze large quantities of dried vegetables so that the submarine could storage and eat from it for months without getting scurvy. Our food products

[6] Nazi party
[7] Scurvy is a disease resulting from a lack of vitamin c which is normally in food.

were very suitable for all military purposes under the condition if proper water is available. As they were dry products you had to add water obviously. In this respect, during the World Wars we worked day and night with huge quantities…We could no longer serve any other customers because the Reichsnährstand[8] had demanded that…" (Interview 3, p.6).

The German Instrument of Surrender ended World War II. The end of the war marked a drastic down phase for the food supply company *Fino Werke*. The family business had lost its main customer and could not export any longer because subsidiary companies from abroad were confiscated i.e. *Fino Haderveik* in Holland.

Christoph explained the situation for the company after the Second World War as followed: "There were a few hits in the yard and in a few buildings…the Americans were first here, who then handed over the area [Andernach] to the French. For reparations the French emptied all factories, so that in our case we were left with nothing but the bare halls" (Interview 1, p.20). Wolfgang explained further:" The food sector was totally down. No one had money in Germany. Our factory was on the ground" (Interview 2, p.16).

The son of the founder, Hermann Walter Luithlen, realized fast that his previous main revenue driver became futile. He realized that his property possessed mineral resources including the very important pumice. Due to his entrepreneurial mindset he quickly diversified the company by adding a second branch – building materials.

Christoph said: "My grandfather came up with the glorious idea and said: 'everyone needs to rebuild after the deconstruction of the war' and this was the beginning of Baustoffwerke H.W. Luithlen in 1947…This ultimately resulted in Remo[9]" (Interview 1, p.20).

Thus, the company survived by the company's vitality potential embodied by Hermann Walter Luithlen who decided to change the family strategy through diversification. Based on the results, the long-term orientation towards the family was ensured. The family business was able to enter the maturity phase. In 1957 the company marked an internal change. The son of Hermann Walter Luithlen took over. Besides that, the family is naturally growing which is why ownership structures became more complex. One vitality advantage of family businesses in the

[8] Government body which was set up in Nazi Germany to regulate food production.
[9] Short form for Rheinische Montagebau; engl. Renish assembly building.

maturity phase is to have clear rules on ownership interests. Based on the analysis this can be confirmed because after Dr Wolfgang Hermann Luithlen became the new managing director he communicated clear ownership interest. Therefore, he paid off several family owners to become main shareholder with 70%. Moreover, Klein (2004) argues that in the maturity phase an increasing distance between owner and company is observable. Based on the research findings this is not the case as Dr Wolfgang Hermann Luithlen was not only closely connected but personified himself with the company.

The business continues to develop as one of his first tasks was to establish sales partnerships in in order to expand the company in a dynamic process. From 1970 onwards, the family business turns into a group of companies (Unternehmensgruppe Luithlen) in which 12 further subsidiaries are part of. They were equally divided into six food and six building materials subsidiaries.

However, according to all interview partners Remo Baustoffwerke became the larger and more profitable company between the 60s and 80s.

Dr Wolfgang Hermann Luithlen said:" We produced 3000m^2 a day on prefabricated ceilings. One house needed 150sqm which means we produced 20 houses a day …just imagine how many houses were made with our stones…" (Interview 3, p.16).

Klein (2004) states that family companies get into the turning phase if vitality deficits continue to exist. Latent conflicts turn into severe crises due to an owner's inability to perceive the seriousness of a crisis. The outcome of a company facing a turning phase is either a turnaround, a skim strategy, bankruptcy or sale.

As we know, the case company's turning phase outcome was to file for insolvency in 2005. In order to understand this outcome, it is necessary to look at external and internal factors that caused the end of the company's vitality lifecycle.

Based on the interviews the decisive external factors were: (1) political decision to end subsidies for private housing, (2) German Reunification, (3) Employees Statue, (4) German tax system, (5) depreciation, (6) free social market economy, (7) Economic crisis in Germany

The internal factors that become vitality deficits were: (1) entrepreneurial mindset and leadership style of main shareholder Dr Wolfgang Hermann Luithlen, (2) holding structure, (3) financial structure, (4) keeping the food business, (5) fraud, and (6) family ownership structure.

External factor 1 – political decision to end subsidies for private housing

Christoph said: “We were primarily active in-home building, for example we supplied ceilings and walls for single-family houses. And if a family has built a house then it has received tax reduction and a subsidy from the state. And this subsidy has been cancelled …for 15 years...the abolition of the home owner subsidies was much worse for the business because 30% from the main market broke away, people were not building anymore…” (Interview 1, pp.8,17).

Dr Wolfgang Hermann Luithlen said: “Then came this decline in building materials in which we had a profit of 2.5 million € but suddenly a loss of 1.5 million €. So, in one year we had a deficit of 4 million €” (Interview 3, p.13).

External factor 2 – German Reunification

After the German Reunification in 1989/1990 the new federal states of Germany caused overcapacities in the building sector.

Christoph: “for example the steel which we have inserted…we would have had to sell it afterwards cheaper than at the entrance, because it was cheaper for the people to have the ceiling delivered from Dresden[10] to Andernach than to produce it in Andernach. That was something we could only deal with very hard” (Interview 1, p.8).

External factor 3 – employee statue

Dr Wolfgang Hermann Luithlen: “Nothing else happened but that the building materials sector suddenly suffered one third of drop in orders in turnover and profit and fell from an annual profit of 2.5 million € to a loss of 1.5 million €. And that could not be absorbed so quickly because of the protective regulations we have in Germany for employees. In contrast to the American “hire and fire” system employees in Germany are monthly fixed cost even if I have no sales … employment protection laws mean that the entrepreneur is no longer in control of the proceedings. We had a building materials plant in Bedburg with 30 people... We had to make a social plan, which was very costly and although we could sell the plant afterwards, it was a big loss. You are no longer in control of the procedure, if in America things are bad in one sector then workers stay at home because there are no orders, but they still know they will continue to work at a certain time. These are fixed costs for us and we have long notice periods.

[10]Former city in East Germany

I understand that too. I am not saying anything against it, but the problem here is not solved“ (Interview 3, pp. 4,12).

External factor 4 – German tax system

Dr Wolfgang Hermann Luithlen: “The infernal thing is that a properly run family business, a medium-sized company, has a tax rate between 65%-70% and not the famous 50% that are always mentioned. Of course, you have a trade tax, which I also represent. Andernach is only interested in industry if people can work there. If the city treasury receives money… so that [trade tax] is 10% and then you have property tax A and property tax B and then you have the employers' liability insurance association and if you take all that we were at 68% taxes…” (Interview 3, p. 12).

External factor 5 – depreciation

Dr Wolfgang Hermann Luithlen: “if we buy goods for the company and we had a purchase volume between 2 and 3 million a year then we can depreciate that. I'll stick with a car. You [Kira] are our authorized signatory and are provided with a BMW. The car costs 31.000 €. Then we are allowed to depreciate this car in four years at a quarter each. After, it will be in the balance sheet with one euro as a reminder. Then Mrs. Schmitz says I need a new car, but that doesn't cost 31.000 € which we have depreciated, but the same type now costs 36.000 €. In the meantime, 4 or 5 years have passed, and we cannot depreciate it. This is an incredible liquidity problem for companies. If you now take it to a magnitude like ours, where every year in the food and building materials sector new machines, production plants, etc. had to be bought for about 3 million €, the whole thing looks difficult at some point. Then we could write off the 3 million € in the companies but if we then take it again then it costs not 3, but 3.4 million €. That's 400.000€ more and we have to take it out of taxed money or finance it externally. That is the reason why the motto "small is beautiful" does not work and then you make a scaffold around it and that has no foundation. Then you no longer hang on the substance branch, but the companies only hang on the profit” (Interview 3, p.12-13).

External factor 6 – free social market economy

Dr Wolfgang Hermann Luithlen: “if we two have a company and this company grows...let's say in the first year the profit is right, but that doesn't stay, because we have to do more to earn the same as before, because the free market economy works in such a way that the price has to be as optimal as possible. I.e. you can't keep it [the price],... if we produce something new there will be someone the following year who says 'I can do that too, but 5% cheaper' and that works several times and then you're in competition... it's just that it's particularly critical for the third and fourth generations if the company isn't on the stock exchange yet, where you make money...you just can't do hold that. You have to do more to keep the original profit. The average yield of a family business in Germany is 1.8%" (Interview 3, p.4).

External factor 7 – German economic crisis

Christoph:" at some point we had to face the end of home owner subsidy and simultaneously the German economic crisis happened, which later resulted in the global economic crisis of 2008. In construction, it is always imminent that it will be the first to get into the crisis and the last to get out of the crisis, because it [building material sector] requires huge investments and advance work. For private individuals in particular, it is a matter of considering building a house once in a lifetime. But they only build it [house] if the job is secure, the interest rates are low and other conditions are just right. And all that led evenly to the fact, including the abolition of the home allowance, that the building market collapsed..." (Interview 1, p.8).

Internal factor 1 – Entrepreneurial mindset and leadership style 3rd generation

Dr Wolfgang Hermann Luithlen represents the third generation and was main shareholder and managing director of *Luithlen Werke GmbH & Co.KG*. This particular section is very sensitive and has not the aim to harm anyone. However, it is crucial to analyse someone's personality or inner constitution in order to understand some entrepreneurial decisions.

Dr Wolfgang Hermann Luithlen became the successor of Hermann Walter Luithlen. He entered the company in 1957 and influenced the company's business development for 50 years.

Based on the analysis the following statements are examples of Dr Wolfgang Hermann Luithlen's leadership style, inner constitution and entrepreneurial mindset: "He was a businessman of old school, who took every risk…He was someone who was always completely open, even to people who were not well-disposed towards him, he was an open book in which you could read, and knew how to take him, whereby [we brothers] only looked at each other and thought how we would slow him down now. Who did certain things that were very good as an idea, but that could develop very negatively in difficulties, such as taking in different people. For example, we once had an interim manager, he promised him a position as managing director because he thought he was great, and Wolfgang and I rolled our eyes and said, 'For God's sake'. And this man later became another nail in the company's coffin. So that was of course very difficult because he was above all someone who came around the corner with his

70% on one side and said, ‘as long as I'm still in charge here, it's done that way and that way’ and on the other side… he has his own way of discussing. You can discuss very well with him, but there is a point up to here and no further…it's very difficult to discuss with someone who always sees the hard facts through pink and red glasses” (Interview 1, p.10-11).

Hermann Walter Luithlen (managing director 2nd generation) followed the principle “A cobbler should stick to his last”. He was someone who was satisfied by expanding the business little by little. He never wanted the company to become big. However, his son (Dr Wolfgang Hermann Luithlen 3rd generation) was quite a different leader and embodied a different entrepreneurial mindset. Based on the research findings, he envisioned that the company should become as big as possible and that as fast as possible. One of his most essential entrepreneurial belief was that sales volume must increase. According to the analysis, he did not manage the company in order to earn money but to expand it, to keep jobs, or to create new jobs. He was a very socially engaged businessman that also had the way of seeing the world in a lyrical or philosophical way. This lyrical side came from his mother [Johanna von Reeth] and influenced him very much in who he became as business and family person.

He stated about himself: “…I would have had to crack down harder. I certainly have many points where you can say I am a good businessman. I can leave five straights if necessary. I can open new markets. I have ideas and I am binding enough …to make good contacts, but I just got this whole lyrical story from my mother for which I live and I tell you quite frankly, all the human fates are worth so much to me that I have not been able to pronounce the necessary dismissals…I tell you I am a family entrepreneur, if someone comes and says ‘I need help’, I have always done that until the end. So, I can tell that I did not embody the negative sides of a successful businessman, which means I was not able to go over life and death. I did not have that [mentality] at all” (Interview 3, p.13-14).

Internal Factor 2 – Holding Structure of Luithlen Werke GmbH & Co.KG

Based on the research findings every participant confirmed that the holding structure of the case company became one of the major vitality deficits. From its foundation to its insolvency the company changed its legal form several time. It turned from a small production company with few employees into a group of companies with several subsidiary companies. The company had shareholder managing directors and employee managing directors. Based on the company’s continuous growth it was therefore no longer advisable to keep the legal form of a limited partnership but rather change it into the German version of a limited liability company GmbH & Co.KG or *Gesellschaft mit beschränkter Haftung & Compagnie Kommanditgesellschaft.* In other words, it is a limited partnership whose complementary partner is a GmbH (limited liability company). However, in Germany it is a very common legal form of a company. What made the holding structure of *Luithlen Werke GmbH & Co.KG* a complex issue is explained by Christoph: “It was a GmbH & Co. KG, which not only had two production sites, but also combined two branches into one GmbH & Co. KG. Namely building materials and food which was historically conditioned, but which led to the problem that any M&A considerations were naturally difficult, because if one part of the company which absolutely occurred in the history of the company was sometimes better and the other one sometimes worse economically seen then one would possibly close or sell one GmbH and continue with the other. But that wasn't so easy here. Because under the heading of hidden reserves and liability risks and the like, these sectors could not really be separated in this sense. That played a certain role in the crisis afterwards… “(Interview 1, p.2).

Christoph also emphasized the issue of the holding form by saying:” At some point it would have been best to make the decision to change the structure in the 80s or 90s. In other words, a holding structure with separate financial structures. Then it might not have come to a clash [insolvency] like that” (Interview 1, p.20).

The following extract explained by Dr Wolfgang Hermann Luithlen shows the reason why the company was not able to overcome the turning phase even though potential partner were in place: “my father [Hermann Walter Luithlen] brought building materials in because food and the foreign clientele was gone after the war…despite all potential buyers who approached us we had interested buyers from the food sector saying ‘we don’t take building materials sector, that’s your business’. That is not our core competence…whereas potential buyers from the building material sector said ‘What are we supposed to do with soup cubes or chicken fat? You are crazy!’…our building material sector did never have its own legal form, it was never a separated limited liability company (GmbH)” (Interview 3, p.50).

Due to the reason that building materials sector was not a separate legal entity it had a major implication in the company’s decease because auditors told Dr Wolfgang Hermann Luithlen: ’if we want to separate the company we have to replace all book values with current values’… “i.e. we were working in Andernach on 50.000sqm which at that time costed 2€/sqm…50 years later the square meter was at 40€. That means, if I put this on the balance sheet the book value of the premises was 100.000€ but the current value was 2.000.000€. Those millions were extraordinary income which means we had to pay immediately the famous 70% taxes. And that was simply not possible. We would have had to do this earlier. However, I understand my father [Hermann Walter Luithlen] who did not earn a penny with food products after the war. He realised that the premises contained natural resources like pumice and started to build stones…" (Interview 3, p.50).

Internal factor 3 – financial structure

Especially, Wolfgang and Christoph, addressed this problem and mentioned that if the company would have had a reasonable financial structure with only 2 instead of 5 or 6 banks the company might have continued with a turnover of 30 million € and 50 employees.

Christoph said: "As long as my father worked in the company he was responsible for financial decisions. We worked with 5 or 6 banks. We had a long-term bank and the rest were short-term banks [however] we talk about heterogeneous collateralisation or, if a company gets into difficulties, so-called bank tables arise. One then tries to examine the company's ability to restructure, how the company could look if it survives and then the financial structure must fit, or the lenders must be prepared to renounce quotas. This is relatively easy if I have a bank, or a maximum of two. If I have the second bank, which is only long-term, then I have a big legal problem, because the long-term bank sits on the land charges and they are valuable. Stocks and receivables can all be smoked in the pipe, they are worth 10%-20% if they are written off. I.e. the two banks still have to be brought together somehow. You can manage that somehow ... but to coordinate six banks and everyone just screams 'I want, I want, I want' was not possible at all...At some point in time probably around the 80s or 90s someone should have decided to adapt the structure. Meaning a holding structure with separated financial structures." (Interview 1, pp.9,20).

Internal factor 4 – keeping the food business

All interviewees admitted that keeping the food business was a wrong decision.
Since the 60s,70s or 80s yield coming from the building material sector had been transferred into the food sector in order to keep it alive. Sequentially, in bad times the company had no large profit carry forward in the building materials sector. Hence, when both sectors crashed sooner or later there was no financial backup because everything had been put into the food business.

Wolfgang said: "…the building materials sector ran very well and attractively for years and the food sector has actually only caused problems since I could think of, it was in deficit…there were meetings where it has been discussed weather to keep the food sector or not. And there was this one succinctly sentences that stocked in my head 'everyone needs food because everyone has to eat, so it must be possible to get our food sector back in shape' (Interview 2, p.3).

Furthermore, he stated: "The building materials sector proved to be the good one for over four decades and time and time again, and this has certainly been a wrong decision, well earned money from this sector has been put into the food sector" (Interview 2, p.4).

Internal factor 5 – controlling structures

Christoph emphasises that the company had hardly any controlling structures which would have been necessary. As an example, he told that one of the external managing directors of a subsidiary company of *Luithlen Werke GmbH & Co.KG* committed fraud on a large scale. However, no one realized that until the accounting department looked at the numbers and accounts which did not fit. In that case, goods were posted but never arrived, but the money was diverted somewhere else.

Christoph: "if I manage a subsidiary with considerable turnover and considerable stock potential elsewhere, then I have to think about how I control this…" (Interview 1, p.6). Investment controlling was one of the most challenging topics for Christoph because it almost did not exist. There were minor structures but on a very low level which compared to the size of the company wasn't representative. He said:" So, that number substructure was missing. The senior [Dr Wolfgang Hermann Luithlen] recognized that. But unfortunately, he didn't hire a professional controller as he might have needed it back then." (Interview 1, p.4).

Internal factor 6 – family ownership structure

Based on all interviewees the family ownership structure is an internal vitality deficit factor. However, as it is already explained in section 5.3. no further explanation is needed. Nevertheless, it is crucial to mention again that its impact as one of the internal factors that caused vitality deficits.

It can be concluded that the model of Klein (2004) reveals a pioneer, growth, maturity and turning phase of the case company. Due to the model researchers are able to know to look for vitality flows and vitality deficits in order to explain a family businesses' development.

5.5. Succession Process of Dr Wolfgang Hermann Luithlen

In order to understand the following succession process it is crucial to remember that after the founder (Hermann Victor Adam Luithlen) had died, he divided his shares to his children equally. He had three sons and two daughters. However, there was only one potential successor (Hermann Walter Luithlen) because he was the only interested and willing one to continue the family business. According to Handler (1994) succession is described as the generational change in family businesses which is consequently the transfer of management control and ownership responsibility. Based on the research findings, the founder handed over the management control to Hermann Walter Luithlen but divided his shares equally to his five children who all became co-shareholder. According to Landsberg (1983) founders try to ignore the matter of succession as it forces them to favour one child over another. Thereby, this theory can be confirmed.

Based on the development of the family, Hermann Walter Luithlen had only one child. This child is Wolfgang Hermann Luithlen. We also know that the company only filed insolvency in the fourth generation which, based on our understanding, automatically must implicate a successful succession from the 2nd into the 3rd generation. Despite all the facts, it is necessary to analyse the succession process of Dr Wolfgang Hermann Luithlen to make any further conclusions.

The following succession process is described based on Longenecker and Schoen's (1975) diachronic framework. (1) pre-business: Dr Wolfgang Hermann Luithlen is born on the 25th of August 1931 as an only child. After his birth, his informal socialization process immediately starts as he gets aware of having a family business. (2) introductory: As he gets older he gets formally introduced to the firm because not only was the family house on the firm's premises, but his father also came home from work and talked about business matters. (3) introductory-functional: In that stage, he should have become part-time employee while graduating and working at another company to gain work experience from outside. That was not the case here. Based on the research findings, Dr Wolfgang Hermann Luithlen moved to Switzerland and France to graduate from law with the major focus in international private law. Besides that, he studied also courses in business administration and economics knowing that he one day will probably take over the company. (4) functional: After graduating he gets the opportunity to pursue a career as professor at Harvard in Boston / Massachusetts. He said: "Now it was the question how I will decide? I immediately talked to my fiancée, who is now my wife, but also to my parents. My father was great and said ‘It is your decision. It is your life, but you have to know, if you decide against the family business, I will try to sell it’” (Interview 3, p.1).

He decided in favour of the company and joined directly after university as full-time employee. He said: “I took over tasks [from my father] relatively promptly, which were later intensified… but I still held back a little while with these changes and first of all familiarized myself with the practice …like how everything works and where advantages and disadvantages are” (Interview 3, p.2). (5) advanced-functional: In this stage the potential successor gets a managerial position and includes all other managerial positions before becoming a leader. Based on the results, he got general power of attorney from his father and was able to make managerial decisions in all areas. (6) early succession: Here, he became dejure head of the company and assumed the presidency. (7) mature succession: After his father left the company, he became the actual successor. He was no longer solely head of the company but became autonomous towards his father.

Handler (1990) sees succession as a mutual role adjustment process. According to the researcher, predecessor and next-generation family member embody new roles and need to adapt accordingly to facilitate a smooth process. The ultimate goal for the next-generation family member is to gain leadership experience, authority, decision-making power, and equity. However, this process often fails due to the inability or unwillingness of the incumbent to relinquish responsibility and power. Due to the analysis, the mutual role adjustment between incumbent and successor went successfully. While Hermann Walter Luithlen more and more relinquished power, authority and equity, Dr Wolfgang Hermann Luithlen acquired several supporting positions before he became manager and later chief decision maker. A very crucial part according to Handler’s succession definition is to hand over management and ownership to the successor.

Based on the analysis, Dr Wolfgang Hermann Luithlen said: “When I started – my father had given me just a few percentage – when I ended my professional activity I had over 70%” (Interview 3, p.4).

That includes that during his 50 years of profession in order to become main shareholder he had to pay off family members that had shares. Even though the succession from the 2nd to the 3rd generation was handled accordingly the successor from the 3rd generation did not become automatically owner of the company. He did become co-owner as his father gave him a small percentage. However, in order for Dr Wolfgang Hermann Luithlen to gain as much ownership power as possible he had to approach his family members and start negotiating and paying them off. Again, his father kept shares for himself even after his son took over the company.

According to Pyromalis and Vozikis (2009) a prosperous succession process depends on satisfaction with succession and effectiveness of the succession process. They highlight five critical success factors that influence the outcome of succession: (1) The incumbent's propensity to leave, (2) the willingness of the successor to take over, (3) positive family relations and communication, (4) succession planning and (5) successor's appropriateness and preparation.

Based on the research analysis (1) the incumbent Hermann Walter Luithlen was very willing to leave the company, (2) his son as potential successor was willing to take over the company even though he had the opportunity to move to America in order to pursue a career at Harvard as professor, (3) positive and negative family relations and communication existed between family members, (4) a succession plan was more or less in place because as only child it was obvious that Dr Wolfgang Hermann Luithlen takes over the company and therefore early communication between his father and himself. While he studied abroad he kept being updated about the company's development and also got informed by his father about business matters so that when he joined the company he was familiar with the family business, (5) in that case the potential successor was appropriate due to his academic background in law, business administration and economics but also was prepared before he joined the family business. In that sense, the succession process was satisfying and effective.

5.6. Succession Process of Wolfgang Luithlen

Based on Wolfgang's interview he said that succession is a gradual process which confirms the theory of many researchers (Gordon & Rosen, 1981; Handler, 1994; Longenecker & Schoen, 1975). Even though he denied having a succession process because he wasn't aware of it, it became very obvious that he indeed had one. As Wolfgang represents the fourth generation as successor it is necessary to understand his stages based on Longenecker and Schoen's (1975) model.

(1) pre-business: Wolfgang Andreas Luithlen was born on 12th of July 1957. His informal socialization process starts when he realized that his grandfather and father are working in the family business.

He said: "…I am linked to the family business since small age as my grandfather and father worked there and it was simply always part of our lives" (Interview 2, p.1)

(2) introductory: He achieved the second stage of his succession process as he grew up next to the company property where he played as kid. "Saturdays and Sundays my father and grandfather always sat together discussing about business matters…every lunch at home was about business matters. We often had guests or customers or business partners at our house even for dinner...So the company was ubiquitous" (Interview 2, p.3). He got familiar with business jargon, employees and the corporate environment.

(3) introductory-functional: He proceeded into the next stage as he said:" I started to do holiday jobs during the school holidays and during the bank training periods I always helped on weekends to do some special jobs like handling complaints or delivering spare parts to customers" (Interview 2, p.1). After his banking apprenticeship he gained working experience outside for 2 years and did a trainee program in a company specializing in the building materials sector because he knew when he is going to join the family business he will start working in the building material sector of *Luithlen Werke GmbH & Co.KG.*

(4) functional: After he started working for the company in 1983 his functional stage was achieved. Based on the analysis he worked in several positions (disposition, sales in both sectors) and had also his own assignments.

(5) advanced functional: After absolving non-managerial positions successfully, he became an additional managing director next to his father. From now on his father shares the company management with his son, Wolfgang. Hence, he achieved the management position after ten years working in the family business.

(6) early succession: Contrary to the theory, Wolfgang did not assume presidency, but he became one of the heads of the company.

(7) mature succession: The last stage is supposed to turn the potential successor into the actual successor meaning he is from now on head of the company being autonomous towards the incumbent as well as controlling the company. This stage has to be denied in case of Wolfgang. Although he became the actual successor by calling him into the management position, he was not in the position to act 100% autonomous towards his father and did not have the overall control over the company as this was not possible due to family ownership structures. However, after his father left the company Wolfgang acted as managing director and got 8,15% shares of his grandfather [Hermann Walter Luithlen]. Nevertheless, Dr Wolfgang Hermann Luithlen was

even after he had left the family business main shareholder of it. Hence, he still a very important figure especially for huge decision.

According to the model of Longenecker and Schoen (1975) Wolfgang Luithlen stocked between the sixth and seventh stage as he was managing director, co-owner of *Luithlen Werke GmbH & Co.KG* but he was not autonomous towards his father in terms of decision-making processes.

Because of that result another succession process model should be used to understand the wide issues of succession. Regarding Handler's (1990) mutual role adjustment model Wolfgang is the next-generation family member and his father is the predecessor. Both parties should, in order to complete the succession, embody new roles accordingly. However, the ability to move to a next role in the perspective of Wolfgang depends entirely on the willingness and ability of his father to relinquish responsibility and power. According to the analysis, Wolfgang turned from no role, to helper, to manager, but he did not become the chief decision maker or leader as it is meant in the theory. He was not the sole chief decision maker or leader, but he became throughout the years until the company went bankrupt managing director and co-shareholder.

Wolfgang said: "My father held the management of Luithlen Werke for many decades and then gave up the management in 1988/1989 but of course he kept his shareholder status because he still owned the company with over 50%. He just wasn't managing director anymore. So, to that extent you still need the consent of the shareholder to make certain decisions. That is quite clear and logical. As main shareholder he had to participate in crucial decisions because we could not decide about selling a company or buying a subsidiary company …over someone who almost possessed 60% of the company" (Interview 2, p.6).

5.7. Succession Process of Christoph Luithlen

Based on the interviewee findings, it is essential to focus on a second succession process that occurred within the fourth generation. The youngest son, Christoph Luithlen, also joined *Luithlen Werke GmbH & Co.KG*. Therefore, we actually have to speak about two succession processes that had happened before the company went bankrupt.

Again, in order to be consistent, this succession process is also going to be analysed according to Longenecker and Schoen's (1975) diachronic framework.

(1) pre-business: Similar to his father and brother, he got informally socialized with the company as soon as he was born. Christoph said: “I am emotionally involved [with the company] since my birth, because I grew up on the firm’s premises” (Interview 1, p. 1).

(2) introductory: Also, very similar to his father and brother, he got introduced to the business environment, business jargon and employees while playing in the production halls and listening to business matters while having lunch or dinner at home.

(3) introductory-functional: Until he graduated from school it can be said that he always helped out in the company. After he left for the military and his studies he was not able to work part-time either in his own family business or somewhere else as the theory is suggesting it.

(4) functional: Christoph joined the family business immediately after his studies and became full-time employee. During the next three to four years he absolved non-managerial positions like sales, technique, visiting customers, familiarize with one’s operating procedures in the building material sector as his brother Wolfgang was at that time already responsible for the food sector. He also considered legal aspects, joined balance sheet and auditor meetings and later had single procuration.

(5) advanced functional: After a total of six years he became part of the management team. That so-called management trio was his father, brother and himself.

(6) early succession: As in the case of his brother, no presidency was acclaimed. Christoph became one of the heads of the company when he got his 6% shares. However, his father was still head of the company in terms of ownership and management because he had the most shares and the say.

(7) mature succession: As in the case of his brother, even though we can say that Christoph was one of the heads of the company, he did not become completely autonomous towards his father. Christoph and Wolfgang, both actual successors, did at some point manage the company on their own, but they did not have the overall control over the company.

Hence, Christoph as his brother Wolfgang was according to the model stocked somewhere between the sixth and the seventh stage also due to the fact that the company filed insolvency in 2005.

Christoph turned from no role, to helper, to manager. However, both of them did not become leader or chief decision maker solely. Nevertheless, Christoph gained authority, decision-making power and equity.

As we know a satisfying and effective succession outcome is based on five factors (Pyromalis & Vozikis, 2009). We also know that Christoph and Wolfgang were both actual successors from the same generation, which is why the overall succession outcome from the third into the fourth generation can be analysed accordingly. One of the critical success factors which affects a satisfying succession is the propensity of the incumbent to leave the company. Based on the case study the following statement describes the situation:

"My father always said, 'when I am retiring at the age of 65 or 68 I am going to step back and make a kind of supervisory board.' If we now count back, he was in his early 70s, but he didn't want to hand over his overhead position. He was still part of the management…At some point a business man should let the next generation take over. Let's also say, also as long as he is in good shape that he can join three meetings a year in which he shares his opinion on things he likes or doesn't like, or if huge investments are in the pipeline that he recalculates them and shares his opinion on that financial decision. But he actually did not keep out from the operational or human resources management" (Interview 1, p.18).

From the perspective of Dr Wolfgang Hermann Luithlen, he said: "… I had a contract that I leave the management at the age of 70 and then only remain chairman of the advisory board and shareholder. We have kept to this policy so that Wolfgang and Christoph have been sole managing directors for the last five years…but of course we continued to work closely together. I retired from active management in 2001, when I had my 70th birthday… After, I was only partner and advisor. Wolfgang and Christoph managed the company until 2005 where we unfortunately had to announce bankruptcy…As long as I was managing director I had the majority of votes [70%]. No longer for contract changes etc. which required 75% majority of votes. The three of us later had an internal company [according to civil law], which was quite complicated. I only made recommendations later, but no majority provisions. It was very important for me to get along with my family" (Interview 3, p.8).

13,4% of family members claim that incumbents never leave the company (Allen & Langowitz, 2003) Based on this case number that is correct because even though Dr Wolfgang Hermann Luithlen left the active management, he was still partner and advisor of *Luithlen Werke GmbH & Co.KG*.

A second critical success factor that influences a satisfying succession is the willingness of the successor to take over. Both successors were absolutely willing to take over the company.

Wolfgang said: "To be honest, it was clear to me from the beginning that I wanted to start in the company. That's why I also had a very bad school career. I was never interested in school or any training; it was clear to me since I could think that the company was there and that I wanted to work there… I want to emphasize that no pressure has ever been exerted in any way, instead my father said to us 'consider what you want to do in your life, you have to make that decision'. For my part I know that I have always wanted to work in the company during the holidays and I enjoyed it. I got along very well with the employees and was interested in the products" (Interview 2, p.9).

Christoph's willingness to pursue a career in the family business was expressed right from the beginning. Like his brother he always wanted to join the family business because he was interested in the products especially in the building materials sector. Since young age he got along very well with employees. For him it was very obvious to start working in the family business and later on to continue the business as successor.

According to the research findings, Wolfgang and Christoph were committed to the family, mature and embodied roles in which taking responsibility was very crucial.

Another critical success factor that influences a satisfying but also effective succession process are positive family relations and communication. Based on the analysis, same values were shared, and mutual respect was demonstrated especially due to their fathers 50 years professional and industry expertise. Open communication was never a problem. However, one successor emphasized that communication sometimes became a problem as suddenly emotions were involved instead of rational facts. The other successor highlighted the good communication base with his father, which was always factional reasonable, and which was not on an emotional level. It can be concluded that a high level of communication in both areas business and succession existed.

The factor "successor appropriateness and preparedness" correlates with an effective succession process outcome. This factor includes leadership and management experiences inside and outside the family business, entrepreneurial skills, educational background. In that context Wolfgang's appropriateness and preparedness should be analysed. Even though Wolfgang did not graduate from school or studied any relevant subject, he absolved a banking apprenticeship. After that he gained two years of working experience outside the company which was for himself and his father important. During that time, he gained crucial working experience in the building materials sector which he knew he would need when starting in the family business. He worked several years in the family business and clearly achieved management and leadership qualities when he became co-managing director and co-owner.

Christoph’s appropriateness and preparedness can be summed up as followed. He successfully graduated from school and from the compulsory military service. After that he graduated from law school and accomplished another degree as business economist. After his academic career he immediately joined the family business. Hence, he did not gain working experience outside the company. He accomplished for many years non-managerial tasks before also becoming co-managing director and co-owner of the company.

Based on the analysis both successors from the fourth generation were appropriate and prepared in that sense. Even though, their academic and professional careers were quite different it must be said that both were a perfect fit as successors. From the beginning, both successors wanted to work in the family business and were very much interested in the products.

5.8. Succession Plan?

Another crucial factor which many researchers point out is having an actual succession plan to reassure business continuity (Pyromalis & Vozikis, 2009; Freund, 2000; Hofmann, 1996; Landsberg, 1983; Handler, 1994). The ultimate goal of any succession plan is to know that leadership and capital responsibility will be transferred. However, this transfer of leadership and ownership can be time-shifted whereas the latter transfer shall take place no later than with the death of the incumbent (Freund, 2000).

In the context of the case company Dr Wolfgang Hermann Luithlen said:

“Yes, we had a succession plan. It was obvious that Wolfgang and Christoph will continue as successors. The young generation was already there. Christoph had just joined the family business and Wolfgang was already working there for several years. They would have continued with the business. The three of us had more than 70% for which [shares] I have worked for my entire life. In that case, it was only up to us who we would choose as shareholder as a majority decision is obligatory. That [succession plan] was all settled” (Interview 3, p.15).

In addition to that scenario Wolfgang explained:

”There was a testament. I can’t tell you by heart, but I think he would have divided his shares by three. That would have made me the strongest shareholder because I still had the 8% from my grandfather [Hermann Walter Luithlen]. Christoph would have been the second strongest with his 6%, and Verena [daughter of Dr Wolfgang Hermann Luithlen] would have been the third. That would have been the normal solution” (Interview 2, p.12).

Based on the analysis, it can be concluded that a succession plan clearly existed for the time the senior will leave the company. By leaving the company, he would have divided his shares in a matter that his sons represent the absolute majority, which means more than 50% and his daughter would have gotten the rest of his shares. The business family had been informed through annual reports and shareholder meetings about the new involvement. It was clearly communicated that the potential intra-family successors will become the new leaders. Succession planning is based on open communication, whereby a future vision should be formulated and shared in which the prior CEO has no more decision power. Dr Wolfgang Hermann Luithlen did all that in 2001.

5.9 Factors preventing intra-family succession at Luithlen Werke GmbH & Co.KG

According to Massis et al., (2008) even though a succession plan is in place the ultimate succession can fail due to individual, relation, context, financial, and process factors. Hence, it must be analysed if one of those factors prevented intra-family succession at *Luithlen Werke GmbH & Co.KG.*

On an individual level referred as *incumbent-related factors* the incumbent has a personal sense of attachment with the business. That theory can be confirmed based on the following statement of the incumbent: “basically I personified myself with the company” (Interview 3, p.1).

On a *relational level* referred as family members one of these preventing influences can be caused by siblings’ rivalry. A sort of sibling rivalry existed due to the fact that Wolfgang and Christoph were brothers and both working for the family business. However, that “sibling rivalry” can’t be held accountable for a prevented intra-family succession.

On a *financial level* the inability to sustain the tax burden related to succession can cause problems.

Christoph: “…companies have already gone bankrupt due to the inheritance tax issue. [However], that would have not played a role in our company, and that would have not played a role in the transition to the next generation either, but you must consider it” (Interview 1, p.12)

On a *context level factors* are related to changes in the political-economic environment the family firm is operating. Based on the research findings, this is the most relevant category that influenced the succession outcome of *Luithlen Werke GmbH & Co.KG*.

Dr Wolfgang Hermann Luithlen:" …it was pure coincidence that we had this decline in building materials in the fourth generation because I had a contract that I leave the management at the age of 70 and then only remain chairman of the advisory board and shareholder. We have kept to this policy so that Wolfgang and Christoph have been sole managing directors for the last five years…but of course we continued to work closely together" (Interview 3, p.8).

As the building sector in Germany was declining the business performance of *Luithlen Werke GmbH & Co.KG* also declined. That in combination with an already low performing food sector was the major influence that caused the succession not taking place due to the fact that the company had to file insolvency in 2005.

6. Discussion

Succession at Luithlen Werke GmbH & Co.KG

Theory says that succession is the decisive threat towards business continuity in any family business (Morris et al., 1997). Succession is defined as passing over management and ownership rights by the incumbent to the successor. According to theory, ownership rights of the incumbent will pass on to the new successor no later than with the death of the incumbent. Hence, a synchronously transfer of both management and ownership rights is not needed in succession (Handler, 1994).

According to the case study, the succession from the 3rd to the 4th generation turned out to be not the decisive threat even though the company's business could not continue after 2005.

In terms of management succession, the incumbent Dr Wolfgang Hermann Luithlen left the active management in 2001. Before that, the management trio (father and both sons) already led the company together. After 2001, both sons managed the company whereas Wolfgang was mainly responsible for the food sector (Fino Werke) and Christoph was responsible for the building materials sector (Remo Baustoff).

In terms of ownership succession, the incumbent Dr Wolfgang Hermann Luithlen established an internal company according to civil law in order to pass on percentages of his shares to his sons Wolfgang and Christoph. During the annual report of 2000 the incumbent informed the co-shareholders that in the event of death or severe health issues his sons as actual successors are going to represent the majority of shares whereas his daughter gets the rest. As most relevant factors for any succession existed and was properly communicated, theory is unable to explain the end of *Luithlen Werke GmbH & Co.KG* after 2005.

However, I believe that in order to understand the general threat of succession, it is inevitable to look at past succession decisions, too. Foremost, how a founder decides his ownership and management succession plays often a significant role as it ultimately leads the way of any further succession involvement. Therefore, it is necessary to evaluate the succession decision which the founder of the case company Hermann Viktor Adam Luithlen made.

In terms of management succession, he decided to hand over the business to his son Hermann Walter.

In terms of ownership succession, he decided to distribute his shares equally to each child. Sequentially, this means that the company has now five co-owners which initiated the basis of a complex family ownership structure. Consequentially, this succession decision affects a family business dramatically because at the end of the year the company is obliged to pay returns to every shareholder. Hence, the company loses liquidity to family members even though it is needed for any type of business-related investment. Thus, considering the succession decisions from the 1st generation, it can be confirmed that succession itself is a decisive threat to family business continuity.

The founder's paradox decision and its implication

As we know a family business is a unique form of organization because it consists of two social systems. Making decisions is especially in a family business a challenging endeavour because you have to consider both systems to harmonize. A decision, which is in favour for the family might not be a decision which is in favour for the business and vice versa.

The following paradox situation is explained according to the founder's decision to distribute his shares equally to all his five children. Hermann Viktor Adam Luithlen is founder, businessman and a father figure. However, his decision is seen in favour of the family system because all his children receives shares and thus are co-owner of the company. It is a decision from the perspective of a father which is reasonable and legit because no father wants to favour one child over another.

At the same time the decision is irrational and contra productive for any business development. Instead of one main shareholder the company has now five co-owners who all expect dividends at the end of the year. This is normal, but it affects the company negatively as family members want what they are entitled to. Hence, from a business perspective it is better to favour one child over the other to keep the money in the business and to avoid an uncontrolled ownership structure. Following that principle, the actual successor from the second generation (Hermann Walter) should have received all shares or at least the majority of the shares to represent decision power. Thus, all other children from the second generation (Erika, Hermann-Viktor, Gertrud, Wilhelm) should have received a onetime payment from the family assets.

As Hermann Viktor Adam Luithlen decided from a standpoint of a father he "favoured" the family system. Thus, his succession decision resulted in the foundation of a family ownership structure which had far-reaching implications. After the first generation, the family ownership structure turned into a negative construct for *Luithlen Werke GmbH & Co.KG*. Simply, because the number of shareholders increased by every marriage and thus more family members are involved who are not interested in the actual business but expect annual returns. The more family members are involved the higher the chance of family disputes which is neither for the family nor the business system positively. This paradox situation can only occur in family businesses which is the reason why this sort of organization is so challenging.

As theory states, creating a balance between the social systems is necessary for any long-term success. However, based on the research findings, it is recommendable that for the sake of any family business founders or incumbents should consider passing on either the majority shares to the actual successor or even to hand over all shares to the actual successor to prevent a massive family ownership structure. All in all, it can be argued that based on the decision of the founder the succession itself became a negative construct for the business continuity of *Luithlen Werke GmbH & Co.KG*.

Family system of Luithlen vs. Business system of Luithlen Werke GmbH & Co.KG

In earlier times, researchers argued that family businesses are unable to succeed because of the business itself. Nowadays, researchers argue that it is the family system which causes the high number of family business failures (Klein, 2004).

Based on the current case, the family business *Luithlen Werke GmbH & Co.KG* filed insolvency in 2005. Assuming recent theory the family company failed because of its family system. According to the opinion of Dr Wolfgang Hermann Luithlen: "…the company could no longer be held because of its family construction, but in connection with the special circumstances that prevailed here. In every other family company, you will hear something different" (Interview 3, p.13).

Although theory and data do align, it is necessary to consider further aspects. After developing the life cycle model of *Luithlen Werke GmbH & Co.KG* it becomes apparent that internal and external factors played a significant role in the end of the company. External factors were i.e. the political decision to end subsidies for private housing; the German Reunification in 1989/1990 which produced overcapacities in the construction sector; the German Employees Statue contrary to the "hire and fire" principle in America; the German tax system for medium-sized companies which claims 68% taxes; depreciation principles; free social market economy that enables competition, or the Economic crisis in Germany which later turned into the World Economic Crises in 2008. Internal factors were i.e. the entrepreneurial mindset and leadership style of the main shareholder, the holding and financial structure of the company; management decisions such as keeping the food business as well as subsidizing it with money from the building materials sector, or the loss of money due to fraud.

Clearly, all these factors are influencing the business system which is why I believe the end of the family company can be only explained by emphasizing both systems. On the one hand, there is the complex family ownership structure that until the end had a total of eleven family shareholders. On the other hand, there is the business itself operating in two different sectors influenced by the above mentioned internal and external factors. By evaluating the development of *Luithlen Werke GmbH & Co.KG* I strongly believe it is necessary to mention another external factor which is the historical background or the so-called "generation" we as people grow up in. In terms of historical background, it must be emphasized that the company operated in a time in which both World Wars occurred. At that time the company depended on its main customer the military. Hence, after the end of World War II, the French occupying power emptied the family business and at the same time the general food business faced a turning phase. Due to that reason, Hermann Walter had to come up with a new business idea in order to keep the business going. He then decided to include the production of stones as he realized two things: First, his company premises consisted of natural resources including the important material pumice which enabled the production of high-quality building materials. Second, everyone needed to rebuild houses after the war.

This idea turned out to be very successful. However, the only fatal point was that he and the upcoming successors did not separate both companies but instead kept it under one holding structure. In other words, the building material sector never had its own legal entity. Unfortunately, this business idea which in the first place helped the company to overcome a severe crisis, turned out to become one of the trouble spots in the end. All interviewees agreed that the company would have survived under the circumstance that each production had its own legal entity. This is very important to understand because during the time of the insolvency external partners were interested to join the family business. Paradoxically, external business partners were either interested in the food business (Fino Werke) or in the building materials business (Remo Baustoff). In the end, the company had to file insolvency also because there was no external partner who was interested in both production areas. Based on that knowledge it can be concluded that *Luithlen Werke GmbH & Co.KG* faced multiple challenges throughout its long existence influenced by the family and business system. Hence, explaining the end of a family business should always consist of the evaluation of both systems in order to confirm or disregard theory. In that particular case, only the combination of the old and new theory can explain the bankruptcy.

Multi-generation family business Luithlen Werke GmbH & Co.KG

Simon's (2012) theory argues that multi-generation family businesses fail because only the first three generations are as attached to the company as needed to survive. Sequentially, he argues that families from the fourth generation onwards are less attached which is why only a small number survives multiple generations. Based on FBA (2014) only 3% of all family businesses make it to the fourth generation which is really a low figure compared to the fact how many family businesses exist in every country around the world (see Annexe 1).

I would like to point out that this theory is not relatable in case of *Luithlen Werke GmbH & Co.KG*. It was a multi-generation family business in which family members of the fourth generation were still strongly attached to it. Otherwise, Wolfgang and Christoph would have not started working there. What would make sense is, if you differentiate between the attachment of family members of each generation and the attachment of potential successors of each generation. As already discussed during the succession process of Dr Wolfgang Hermann Luithlen, Wolfgang Luithlen and Christoph Luithlen they were all very attached to the family business. From my personal experience and as I am representing the fifth generation (see Annexe 4) I can tell that I was less attached to the family business. However, I believe that being attached or not depends not solely on a generation itself but rather on factors such as in which environment family members grow up (i.e. on a company premises or living far apart), different career interests or in which way the previous generation (i.e. my mother) is involved in the company.

Table 1
Summary of Core Dynamics and Data Sources with Illustrations

Three subsystems family, business, ownership	Interviewee 3	"It is very difficult when you are in such a position to please everyone."
	Interviewee 2	"…a large group of shareholders, is always a negative construct because they usually live far away and thus have little idea of the actual business nevertheless they would like to see a decent return on their share capital or invested capital. This is a quite difficult situation because these external shareholders hope or expect profit year after year and have little understanding if there are three or four years, that are bad."
Parents-founder succession dilemma	Interviewee 3	"Unfortunately, my grandfather did not pass on the company to one but instead divided shares equally to all five children." One child became managing director, but all five co-owners.
Family system vs. business system	Interviewee 3	"If I consider all arguments, then the company could no longer be held because of its family construction."
Vitality deficits	Interviewee 1-3	political decision to end subsidies for private housing, German Reunification, Employees Statue, German tax system, depreciation, free social market economy, Economic crisis in Germany; holding and financial structure, keeping the food business, entrepreneurial mindset and leadership style of former managing director
Succession plan	Interviewee 3	"Yes, we had a succession plan. It was obvious that my sons will continue as successors. The younger generation was already working there."
Family Business	Interviewee 1	"The family business was run 100% by our family and was also family owned. We had a structure of seven or eight natural persons as partners."
Context level factor Preventing succession	Interviewee 3	"…it was pure coincidence that we had this massive decline in building materials in the fourth generation because I had a contract to leave management at 70 and then remain chairman of the advisory board and shareholder. We have kept to this policy so that my sons have been sole managing directors for the last five years…but of course we continued to work closely together."
Succession Management vs. ownership	Interviewee 1	"you should consider whether it makes sense to simply pass on the family business to the next generation or to let investment companies join if your company gets bigger"

7. Conclusion

This single case study provides valuable insights into a multi-generation enterprise as it represents only 3% of all family businesses that succeed into the fourth generation. Based on these low figures this case study is able to greatly contribute to the existing research in family businesses while drawing valuable conclusions based on theoretical concepts.

Analysing the case company *Luithlen Werke GmbH & Co.KG* gives a rare insight of highly complex structures existing in such form of organization. It is the epitome of a family business as it was handed over by intra-family successors from generation to generation. In light of the fact that only a small percentage of family businesses worldwide get into the fourth generation that alone shows the remarkable success of *Luithlen Werke GmbH & Co.KG*. At the same time the fourth generation marks the end of the company which categorizes it as one of many failed family businesses. Nevertheless, conducting interviews with intra-family successors of *Luithlen Werke GmbH & Co.KG* from the third and fourth generation provided a unique opportunity to look closer behind such a global phenomenon. Until today researchers are unable to agree on a common family business definition or whether the social system family or business causes the high number of failed family businesses in the end.

Luithlen Werke GmbH & Co.KG is one example whose failure cannot simply be explained by pointing the finger to either the family or business system. It was rather the combination of the three systems – family, business, and ownership that caused the end of the company.

Moreover, the case study points out that in order to understand the full scope of the decisive threat of succession it is inevitable to differentiate between management and ownership succession as well as to not only focus on recent but also on past succession decisions. The case study illustrates that even with a succession plan in place and two appropriate and prepared successors these factors does not automatically guarantee the future existence of a family business.

This case study is an exemplary story of how the sheer circumstances within political and economic issues can define a company´s success and should always be considered when analyzing potential failing points. Decisions made in one generation, which were well thought through within the time, can come back to destroy the business strategy and future path of its next managerial generation. Historical events in the geographical and timey area of a family business have to be taken into consideration – as in this case WW II in Germany – as decisions from one time have very different focus points and have to be seen in context of said time period. Thus, a decision made in the second generation ended up snowballing through the third and fourth generation without any correction being made and finally accumulating to the downfall of the company.

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9. Annexes

Annexe 1: Economic impact of family firms around the world (Ferramosca & Ghio, 2017, p.22-23).

	Column A	Column B	Column C
Country	Percentage of family firms in the private sector (%)	Percentage of workforce employment in family firms (%)	Percentage of family firms' contribution to national GDP (%)
Afghanistan	35	n.a.	30
Argentina	71	68–70	n.a.
Bahrain	95	73	28
Belgium	69	45	55
Brazil	90	50	85
Chile	90	60	60
China	85	n.a.	65
Colombia	70	65	60
Costa Rica	90	n.a.	60
Dominican Rep.	96	n.a.	80
Ecuador	90	93	51
El Salvador	90	65	60
Finland	80	50	40–45
France	60–66	n.a.	60
Germany	95	57	55
Honduras	90	n.a.	n.a.
Hong Kong	60–66	n.a.	n.a.
India	90	79	66
Indonesia	72	n.a.	n.a.
Iran	78	n.a.	n.a.
Iraq	n.a.	35	n.a.
Italy	93	94	n.a.
Japan	90	n.a.	n.a.
Lebanon	85	85	n.a.
Malaysia	70	65	67.20
Malaysia	70	n.a.	67.20
Mexico	82–90	79	90
Netherlands	69.30	49.90	53
Paraguay	80	n.a.	n.a.
Peru	90	74.70	75
Philippines	80	n.a.	76
Portugal	70	50	60
Puerto Rico	90	n.a.	n.a.
Singapore	n.a.	n.a.	50
South Africa	80	n.a.	n.a.
	Column A	Column B	Column C
South Korea	n.a.	n.a.	48.20
Spain	75	n.a.	65
Sweden	79	n.a.	n.a.
Taiwan	60–66	n.a.	n.a.
UK	70	n.a.	70
Uruguay	80	n.a.	50
US	80–90	63	57
Venezuela	92	73	50

Annex 2: Definitory approaches of a family business (own representation based on Luan et al., 2018, p. 131).

Author	Definition
Dyer (1986, p.xiv)	It is an organization in which decisions regarding its ownership and management are influenced by a relationship with a family.
Stern (1986, p.xxi)	A corporate owned and operated by members of one or more families.
Ward (1987, p.252)	The family business means that passed on for the family's next generation to operate and control.
Landsberg (1988, p.2)	At least one member of a family has control of ownership in a company.
Gallo and Sveen (1991)	A family firm is the business owned by a family, and the family members have majority of stock and enforce managerial control over core of the management team, making important decisions regarding the business.
Litz (1995)	The concept of a family business has two perspectives. One view is in terms of structure, families are involved in firm ownership and management. Another view focuses on management's intention to maintain or increase intraorganizational family involvement.

Annexe 3: Interview Guide

Notes:

- Each interview took between 60 – 90 minutes
- Each interviewee gave permission to record the interview
- Anonymity is preserved in specific situations
- The overall goal of conducting these interviews is to get a personal insight about working in a family business. Hence, no answers are right or wrong. The focus lies on opinions, feelings and experiences.

Questions about the Case Company: Luithlen Werke GmbH & Co.KG

- To what extent are you involved with the case company?
- Please provide a genesis of the company. How did you manage to restructure the company after the First or Second World War?
- Did the company has a works council?
- How many employees did the case company have?
- What is the legal form of the case company?
- What was the annual turnover?
- How many shareholders did the case company has?
- Were external shareholders able to make operational decisions?
- Who were the shareholders?
- Did you have external managing directors?

Interviewee 1 (Christoph Luithlen)

- Please introduce yourself.
- Have you ever been managing director of the case company?
- What were your personal challenges working in a family business?
- What is it like to work in a family-related company?
- How did the succession process look like for you?
- Did your father train you?
- Was it communicated from childhood onwards to join the company?
- What are your impressions about the quote: "the first generation builds, the second increases, and the third one is ruining it"?
- Can you relate that quote somehow to the case company?
- What percentage share did you have?
- What role did your mother play in the company's history?
- Was your mother asked for advice?
- What does succession mean to you?
- What do you understand by the term family business?

Interviewee 2 (Wolfgang Luithlen)

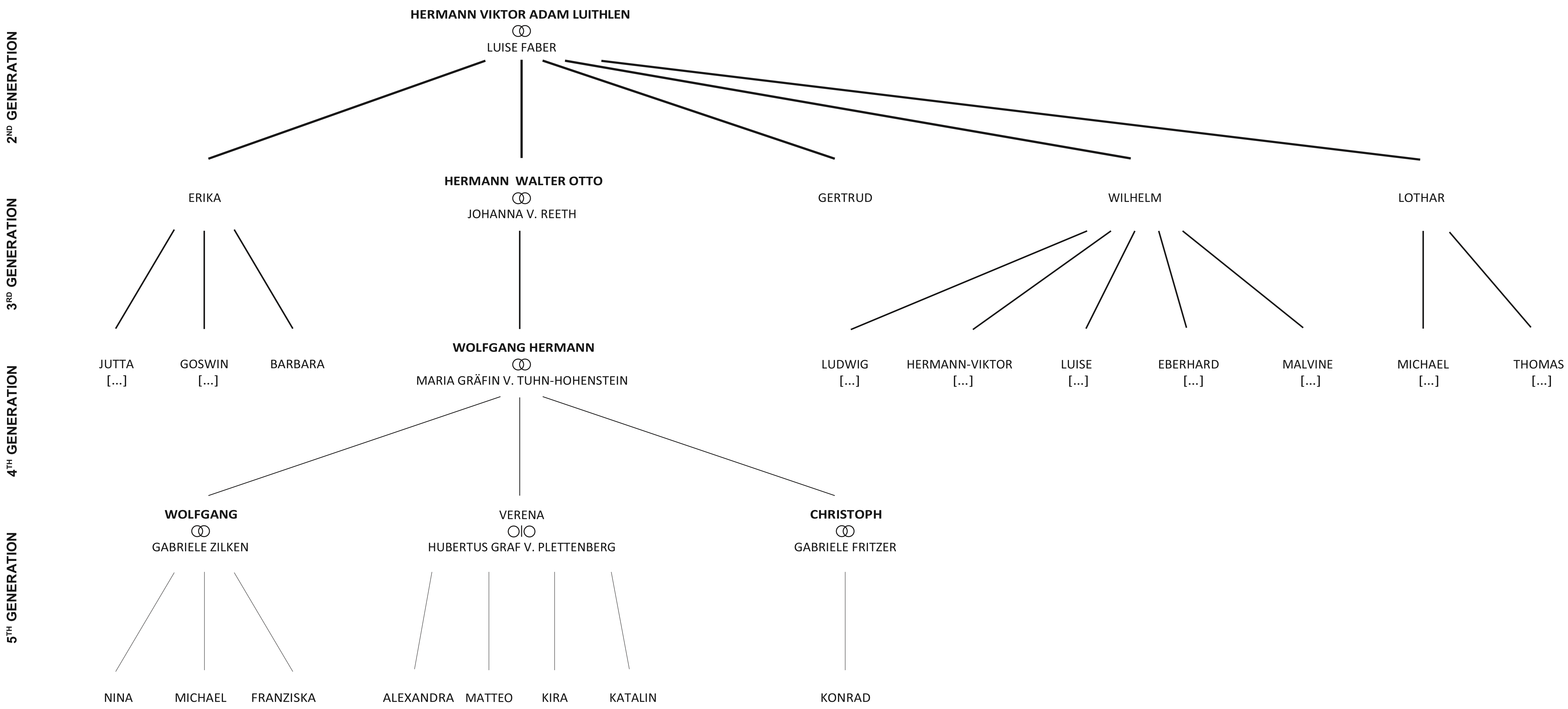
- What positions did you have in the family business?
- How did your academic career look like?
- What did you do after finishing your banking apprenticeship?
- Was it important for your father to gain working experience outside the family business?
- How did your childhood look like?
- What does it mean to grow up in a family business?
- When did you become managing director?

- Did you have decision making power?
- After your father left the family business, did he still make decisions?
- What did your succession look like?
- Was it clear for yourself that you would join the family business?
- What are your impressions about the quote: “the first generation builds, the second increases, and the third one is ruining it”?
- Can you relate that quote somehow to the case company?
- Do you see it as an advantage or disadvantage that your father still had the majority voting rights even though he did no longer work in the family business?
- Was there such a thing as sibling rivalry?
- How was the communication with your brother and father?
- If you compare your grandfather and father would you say that one was more entrepreneurial than the other?
- Could you ever have become the owner of Luithlen Werke?
- How often did you have shareholder meetings?

<u>Interviewee 3 (Dr Wolfgang Hermann Luithlen)</u>

- What is your personal experience growing up in a family while having a family business?
- How did your succession look like?
- Have you been trained by your father?
- What is in your opinion so special about the organizational form family business?
- According to your opinion, what are advantages and disadvantages working in a family business?
- How would you describe the corporate culture of Luithlen Werke?
- Researchers claim that multi-generational families are less connected and involved in the family business. What is your opinion on that statement?
- How many shares did you still have when you left the company?
- Who had the majority voting rights when you left the company?
- How did you manage family conflicts?
- Do you think the family business failed because of the family or because of the business system?
- Did you have a succession plan?
- How did your succession look like?

Annexe 4: Family tree



Annexe 5: Organisation Chart Luithlen GmbH Holding Company