Succession Readiness and Knowledge Tacit Knowledge Continuity in Manufacturing Enterprises: A Conceptual Framework

Mr. Sachin K Shelar, Ph.D Research Scholar

Dr. Asita A Ghewari, Ph.D Guide

Savitribai Phule Pune University, Pune, Maharashtra, India

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ABSTRACT

Family-owned manufacturing enterprises make up a substantial share of industrial output in many economies, yet they face a distinctive vulnerability during leadership succession: much of the operational and relational expertise that sustains the business resides tacitly in the founder or senior-generation leadership rather than in formal documentation. This paper develops a conceptual framework linking succession readiness to tacit knowledge continuity in family manufacturing firms. Drawing on the knowledge-based view of the firm and organizational learning theory, the paper distinguishes between three categories of tacit knowledge typically concentrated in founder-generation leaders: operational tacit knowledge (equipment, process, and supplier judgment), relational tacit knowledge (customer trust, informal networks, and workforce loyalty), and governance tacit knowledge (informal decision norms and conflict-resolution practices). The paper argues that succession planning in family enterprises is frequently treated as a legal and financial exercise, ownership transfer, tax planning, governance documentation, while the transfer of tacit operational and relational knowledge receives comparatively little structured attention. A four-stage conceptual model of tacit knowledge continuity during succession is proposed: early exposure, guided co-management, gradual authority transfer, and post-transition advisory support. The paper concludes with implications for family business owners and policy-oriented small and medium enterprise (SME) support programs seeking to strengthen succession resilience.

Keywords: family business, succession planning, tacit knowledge, manufacturing SMEs, knowledge continuity, organizational learning

INTRODUCTION

Family-owned enterprises represent a significant proportion of manufacturing capacity in many economies, particularly among small and medium-sized firms. These enterprises are frequently built around the accumulated experience of a founder or a small senior-generation leadership group whose judgment shapes everything from supplier selection to shop-floor problem-solving to customer relationship management. When leadership transitions to a next generation or to a professional management team, the enterprise faces a knowledge-continuity challenge that is distinct from, and often more acute than, succession challenges in larger, more bureaucratized organizations. Large corporations typically possess more extensive documentation, formal training programs, and distributed leadership structures that buffer against the loss of any single individual's knowledge. Family manufacturing firms, by contrast, are often more dependent on the tacit judgment of one or a small number of individuals, and succession failure in such firms is frequently attributed not to financial mismanagement but to an inability of successors to replicate the operational and relational judgment of the outgoing generation.

This paper asks how family manufacturing enterprises can better plan for the continuity of tacit knowledge during leadership succession, rather than treating succession primarily as a legal and ownership transfer exercise. The paper draws on the knowledge-based view of the firm, which holds that firm-specific tacit knowledge is a primary source of competitive advantage precisely because it is difficult to codify or transfer quickly. This characteristic, valuable during ordinary operation, becomes a liability during succession, when that same difficulty of transfer threatens business continuity.

The paper proceeds as follows. Section 2 reviews relevant theory on tacit knowledge and family business succession. Section 3 develops a typology of tacit knowledge concentrated in founder-generation leadership. Section 4 proposes a four-stage conceptual model for knowledge continuity during succession. Section 5 discusses practical and policy implications, and Section 6 concludes.

Theoretical Background

The Knowledge-Based View and Firm-Specific Tacit Knowledge

The knowledge-based view of the firm (Grant, 1996) holds that sustainable competitive advantage derives substantially from knowledge assets that are difficult for competitors to imitate, particularly tacit knowledge embedded in individuals, routines, and organizational culture. In family manufacturing enterprises, this tacit knowledge is frequently concentrated disproportionately in the founding generation, whose judgment was formed through direct, often improvisational, engagement with the business during its formative years. This concentration is efficient during stable operation, since decision-making authority and expertise are co-located, but it creates a single point of failure when that individual exits the organization.

Succession as an Organizational Learning Problem

Family business succession research has traditionally emphasized governance structures, ownership transfer mechanisms, and interpersonal or emotional dynamics between generations. Comparatively less attention has been paid to succession as a problem of organizational learning, that is, as a process requiring the deliberate transfer of experiential understanding from one generation of leadership to the next, analogous to the mentoring and apprenticeship mechanisms described in the broader tacit knowledge literature. Viewing succession through this lens suggests that succession readiness should be assessed not only by legal and financial preparedness but by the extent to which tacit operational and relational knowledge has been actively transferred prior to leadership transition.

A Typology of Founder-Concentrated Tacit Knowledge

Operational Tacit Knowledge

Operational tacit knowledge encompasses the founder's accumulated judgment regarding production processes, equipment behavior, supplier reliability, and quality standards. In many family manufacturing firms, this knowledge was developed through years of direct, hands-on engagement with the shop floor, often predating the formalization of standard operating procedures. A founder may know, without being able to fully articulate why, which suppliers can be trusted during tight deadlines, which equipment requires closer monitoring during particular seasons, or which quality deviations are tolerable under specific customer relationships.

Relational Tacit Knowledge

Relational tacit knowledge includes the informal trust relationships a founder has built with long-standing customers, suppliers, financiers, and employees. Such trust is often personal rather than institutional, meaning it may not automatically transfer to a successor simply because the successor inherits legal ownership or formal title. Customers accustomed to dealing directly with a founder may be hesitant to extend the same flexibility, credit terms, or priority treatment to an unfamiliar successor, regardless of the successor's technical competence.

Governance Tacit Knowledge

Governance tacit knowledge refers to the informal norms through which a founder has historically resolved internal conflicts, balanced competing stakeholder interests, and made decisions under ambiguity, often without reference to a formal governance charter. In many family enterprises, this informal governance style is central to organizational stability, and its absence following succession can generate internal uncertainty even when formal governance documents exist.

A Four-Stage Conceptual Model of Tacit Knowledge Continuity in Succession

Building on the typology above, this paper proposes a four-stage conceptual model describing how tacit knowledge continuity might be more deliberately managed during family business succession.

Stage One: Early Exposure

In this stage, prospective successors are exposed to operational realities well before formal succession discussions begin, through rotational assignments across production, procurement, and customer-facing functions. The purpose is to build a baseline of experiential familiarity analogous to an extended apprenticeship, rather than introducing the successor to operational complexity only at the point of transition.

Stage Two: Guided Co-Management

In this stage, the successor assumes increasing operational responsibility while the founder remains actively involved as a mentor, deliberately narrating the reasoning behind key decisions rather than simply making them. This stage corresponds closely to the socialization and externalization processes described in the SECI framework, combining shared experience with explicit articulation of underlying judgment.

Stage Three: Gradual Authority Transfer

Decision-making authority is progressively transferred to the successor across defined domains, beginning with lower-risk operational decisions and extending toward higher-stakes strategic and relational decisions. The founder's role shifts from decision-maker to advisor, available for consultation but no longer exercising default authority.

Stage Four: Post-Transition Advisory Support

Following formal transition, the founder remains available in an advisory capacity for a defined period, providing a safety net during which residual tacit knowledge gaps can surface and be addressed before the founder's full departure from the organization.

Complicating Factors: Non-Family Successors and Professional Management

The four-stage model outlined above assumes a family-member successor, but many family manufacturing enterprises increasingly transition leadership to professional, non-family managers, either because a willing and capable family successor is not available or because the family chooses to separate ownership from operational management. In such cases, the tacit knowledge continuity challenge is arguably more acute, since a professional manager typically lacks even the informal, lifelong exposure to the business that a family successor may have accumulated growing up around the enterprise. The model proposed in this paper can be adapted to such contexts, but the early exposure stage would need to be substantially extended and formalized, potentially spanning several years of structured rotational assignment, rather than relying on the incidental exposure a family successor might have gained through childhood involvement in the business. Similarly, relational tacit knowledge transfer, discussed in Section 3.2, becomes more challenging with non-family successors, since customers and suppliers may have specifically valued their personal relationship with the founding family rather than the enterprise as an institution, requiring more deliberate relationship-transition planning.

Practical and Policy Implications

For family business owners, the model suggests that succession planning should begin substantially earlier than is typical, with explicit attention to operational, relational, and governance knowledge transfer rather than focusing succession planning discussions primarily on ownership and taxation. Successors should be deliberately exposed to customer and supplier relationships well in advance of transition, ideally through joint visits and introductions that allow trust to transfer gradually rather than abruptly. For SME support organizations and industry associations, the framework suggests an opportunity to develop structured succession-readiness programs that assess not only governance documentation but the extent of demonstrated tacit knowledge transfer, potentially through mentorship certification or structured knowledge-transfer audits conducted in the years preceding a planned transition.

Limitations of the Conceptual Approach

This paper offers a conceptual framework rather than an empirically validated model, and the four-stage sequence proposed in Section 4 should be treated as a set of testable propositions rather than a proven succession methodology. The typology of operational, relational, and governance tacit knowledge, while analytically useful, is unlikely to capture every dimension of founder-concentrated expertise in every industry context, and the relative importance of each category will likely vary depending on the nature of the manufacturing business, its customer base, and its competitive environment. Additionally, the model assumes a degree of willingness on the part of both founder and successor to engage in a structured, multi-year transition process, an assumption that may not hold in cases of sudden succession due to illness, death, or unplanned departure. Future empirical research, including comparative case studies of family manufacturing enterprises that have undergone successful versus unsuccessful transitions, would help refine and validate the propositions advanced in this paper.

CONCLUSION

This paper has argued that succession planning in family-owned manufacturing enterprises should be understood as fundamentally a knowledge-continuity problem, not merely a legal and financial one. A typology of operational, relational, and governance tacit knowledge concentrated in founder-generation leadership was developed, along with a four-stage conceptual model, early exposure, guided co-management, gradual authority transfer, and post-transition advisory support, describing how such knowledge might be more deliberately transferred prior to and during leadership transition. Future empirical research could test this model against case studies of successful and unsuccessful family business transitions, examining which specific mechanisms most strongly predict post-succession operational continuity.

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