

# Generational Succession and Entrepreneurial Attitude in the Family Business in Baja California

*Salgado Patiño Lisette, Sumaya Tostado Rosa*  
(Cetys Universidad, Mexico)

**Abstract:** This research propounds the characteristics of the development of a generational succession in a family business in Baja California, Mexico, with their permanence problems in a highly competitive market and their entrepreneurial attitude towards them, reporting the results of a case study. Semi-structured interviews were conducted to the starting entrepreneur, successors and administrative staff throughout this investigation. The results reveal that at the moment of starting a business, a succession plan that allows the permanence of it and its growth isn't considered; so in this work, it is recommended to involve successors in the administrative proceedings before the succession time, taking in consideration the participation of externals in the design and implementation of strategies that strengthen the project.

**Key words:** generational succession; entrepreneurship; family business

**JEL code:** M1

## 1. Introduction

The family business is a fundamental part of the productive economic structures of both industrialized economies and developing countries. Despite the lack of rigorous data to confirm this, family business have a key role in the generation of national wealth of any given country, although often the knowledge of this production structures is scant; on the other hand, in the world and currently, its systematic research is relatively new.

In any modern society, family is considered the most important social institution because it is here where personality and individual development is formed, Psychologists, sociologists, historians and economists consider it the fundamental structure of the systems they study (Kelin E., Gersick et al., 1997).

Under the concept above, the Family Business, understood as an economic hub, is generally the product of the realization of the dream of the founder(s) that develops according to the opportunities the market is offering. Family businesses that have survived over generations are those who have managed to strengthen the original pillars (principals) on which they were created: vision, mission, values, leadership, cohesion, communication, philosophy of life and family pride. And it is precisely this that must be preserved despite the existing issues, through the passage of different generations. About the family business Peter F. Drucker (1997) makes important comments on the administration of family business: the majority of business everywhere, even in the United States

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Salgado Patiño Lisette, Dra., Cetys Universidad; research areas/interests: entrepreneurship, management, family businesses.  
E-mail: [lisette.salgado@cetys.mx](mailto:lisette.salgado@cetys.mx).

Sumaya Tostado Rosa, MSc., Cetys Universidad; research areas/interests: entrepreneurship, management, family businesses.  
E-mail: [rosa.sumaya@cetys.mx](mailto:rosa.sumaya@cetys.mx).

and other developed countries, are controlled and managed by a family. The family management is not limited to small and medium size firms; it covers some of the largest companies in the world.

However, management texts and courses on the subject most exclusively deal with publicly owned companies and professional management, and rarely even mention the family-run business. Of course there is no difference between professional management and family-run business regarding all the functional work: research, or marketing, or accounting. But with regard to management, the family business requires its own rules, which are very different.

In Mexico, the nature of Mexican family is unique. The value given to family in Mexico is an outstanding cultural characteristic, and even one of the most distinguished. Children grow up feeling loved, protected and emotionally attached to the family. Such behavior is usually transmitted to the company, which prefers to hire family members and close friends. As a result, work tends to be an extension of home, where the owner serves as a moral authority, the role of father. Although family organizations suffer major structural changes when growing, these modifications will not subtract importance to family ties (Belausteguigoitia, 1996).

## 2. Background/Literature Review

According to Longenecker and Schoen (1978), the succession from father to son in the direction of a company controlled by family implies a chronological long-term process of socialization in which the successors of the family prepare gradually for leadership through learning experiences in the course of their life.

For Handler (1990), succession represents a process of adjustment of roles between founder and family members that make up the next generation. In interviews with thirty-two members of family's next generation, they revealed a process of multiple phases by which the founder goes over and decreases its stake in the company over time.

Many family businesses conduct the succession process following the birthright criteria. This traditional approach is, according to Cabrera Suárez (1997), an automatic assumption releasing parents from the unpleasant task to compare and choose between their children. At the same time, it is an underused resource that can be very valuable and fundamental to the family business and that means opportunities for professional development in the company are closed to women.

The definition of family business is not easy, because there is no commonly accepted definition of the concept (Landsberg et al., 1988; Handler, 1989). In fact there are various definitions, and in this sense Habbershon and Williams (1999) found forty-four different in literature on the subject.

Those definitions propose a clear demarcation between what is family business and what is not, they propound descriptions that are either too complex, or don't have cases that common sense would define as a family business

Westhead and Cowling (1998) grouped the various existing definitions of family businesses into five categories and expand in the types of definitions previously postulated by Handler (1989). These authors categorize the definitions according to whether the criterion of demarcation is the perception of what a family business is, the existence of a percentage of shares held by the family, the management of the company by members of the family, or a generational transition or a combination of the above criteria.

Other authors propose to approach the family business from an entrepreneurial grasp (Heck, 1998; Habbershon & Pistrui, 2002). They focus on the family business as a value generating element through its

involvement in the business. The entrepreneurial approach would generate a family business model in which both the family and the company cohere around the entrepreneur (Baulenas Gimeno, 2003).

For the foregoing we understand entrepreneurship as a concept with multiple meanings, in fact, depending on the context in which it is used is the connotation that is given, for example, to the business world the entrepreneur is a businessman, ie it stands for owner a commercial enterprise for profit, such as Finley (1990), who describes him as someone who ventures into a new business activity or Say (1800), quoted by Drucker (1989), who classified him as a “good manager”. For the academic however, entrepreneurship denotes a profile, a set of features that make it act in a certain way and allow you to display certain “capabilities” to visualize, define and achieve objectives, as indicated by Ely and Hess (1937), cited by Ronstadt (1985), Rodriguez (2004).

Under the concept of entrepreneurialism emerges the GEM project since its inception in 1999, it has aimed to measure differences in the levels of entrepreneurship across countries, as well as establishing the relationship between entrepreneurial activity and economic growth of a country. To achieve these objectives the action of an entrepreneur is defined as: “Any attempt to create a company or new business such as self-employment, the organization of a new business, expanding an existing one, by a person, group of persons or an established company”. Also, the model GEM defines entrepreneurship as “any attempt at a new business or a new venture so as to generate self-employment, a new business unit, or the expansion of an existing business; by an individual, group of individuals or an established business” (GEM Global, 2012; Global Entrepreneurial Activity Monitor, Mexico, 2013 (GEM)).

### **3. Problem Statement**

Determine, based on this research, the developmental characteristics of a generational succession in a family business in Baja California, Mexico, with their permanence problems in a highly competitive market and its entrepreneurial attitude towards them.

### **4. Investigation Objective**

#### **4.1 General Objective**

Determine the importance of the involvement of successors with an entrepreneurial attitude in planning processes, supported by formal training practices from the founder, to ensure the permanence and growth of the company.

#### **4.2 Specific Objectives**

- (1) Determine whether participation of successors is permitted within the choice of growth strategy of the company.
- (2) Determine how the founder is monitoring the strategy.
- (3) Determine whether there are metrics to evaluate the function of the successor at the time to follow up strategies.

### **5. Scope and Limitations**

#### **5.1 Scope**

The study subjects were the founder and successors in a second-generation family business.

**5.2 Limitations**

This research was conducted in a business of Baja California. The company belongs to the trade sector in the field of vegetables and legumes and is located in the city of Mexicali. Currently this consists of the founder and a second family generation.

**6. Method**

Case studies as a method of research, involve descriptive and explanatory aspects of the subjects under study, using qualitative and quantitative information (Bernal, 2006).

For Creswell (2002), The case studies are a qualitative methodology. Researchers focus on a program, event or activity that involves individuals rather than groups. There is an interest in it to describe the process rather than, on identifying patterns of behavior exhibited by the group.

According to what Creswell (2002) indicates, the steps that should be followed in a case sture are:

(1) Data access

(2) High probability that the mixture of processes, programs, people, interactions and issues related to research structures is given.

(3) The quality and credibility of the study is ensured.

Therefore the selection of the case, was made considering the aforementioned elements to meet the phenomenon under study, and at the same time allow us to learn.

The family business selected, has the characteristics of representativeness raised in this research, within the state of Baja California, and is listed in the following table:

**Table 1 Family Businesses Participants in the Research**

No	Business	Type	Observations
1	Frutería Fernández	SMEs	Located in Mexicali Baja California

Source: Own.

For the fieldwork semi-structured interviews, were implemented, also called depth; like other qualitative methodologies (Taylor & Bodgan, 1999). Benney and Hughes (1970) say the interview is the favorite “digging” tool of sociologists, because through this they are able to know, analyze and interpret realities that by other means would be difficult or even impossible to do so; such as the presence of a cultural learning environment, a person’s life, historical events somewhere in the world. According to Taylor and Bogdan study (1999) it exist several types of interviews, among which can be distinguished as structured and unstructured; this last correspond to the depth interviews.

The qualitative interviews are not directives, unstructured, non-standard and open; here what matters is the respondent’s opinion, their way of seeing the world and therefore the individual subjectivity printed on the knowledge that they are sharing. “...For qualitative interviews in depth we understand repeated face to face encounters between the researcher and informants “meetings directed towards understanding the perspectives of the informants about their lives, experiences or situations as expressed in their own words. In-depth interviews are modeled on a conversation between equals, rather than a formal exchange of questions and answers. “Far from resembling a robot collecting data, the researcher is the research instrument and it is not a protocol or interview form.” (Taylor & Bodgan, 1999).

The cases in where to implement an in-depth interview could be:

- The research interests are relatively clear and well defined.
- The scenarios or people are not otherwise accessible.
- The researcher has time constraints.
- The research relies on a wide range of scenarios or people.
- The researcher wants to clarify subjective human experience.

In the research interviews were conducted in the months of June to December 2013, as described in Table 2.

**Tabla 2 Interviews with the Companies under Investigation**

Business	Duration	Procces
Fruteria Fernández	120 to 150 min. average	Introduction Semi-structured questions Open questions Closure Summary elaboration Content analysis Establishment of assumptions regarding hypothesis Conclusions

Source: Own

## **7. Results**

### **7.1 Case Presentation**

#### **7.1.1 The Origin**

Cuquío is a municipality in the state of Jalisco municipality located in the region of Los Altos. It limits the north with the municipality of Yahualica and the State of Zacatecas; south, Zapotlanejo and Acatic; east, Yahualica, Tepatitlán and Acatic; and west, Ixtlahuacán River, it was in that place where Mr. Ruben Fernandez Gonzalez was born. His history, as the one from the great founders of Baja California, starts from an early age, at age 8 his father died, so he became the provider of the family, and that is why he decided to go to work in the United States; soon after, his mother dies, leaving him and his two sisters, Ofelia and Isaura on the ward of Grandma. With this, Mr. Ruben returns to his village, beginning to work with tomatillo. From then he remembered that her grandmother always said, “he is a child capable and intelligent”. This phrase drives Mr. Ruben as he starts looking for ways to bring more money home, and then he starts selling tomatillo looking for new customers and distribution sites.

Just like that he spends most of his childhood and adolescence, until he decides to come to Mexicali seeking new opportunities and is in the year 1976 that begins operations “Frutería Fernández”.

By this time his family was made up by his wife. Ms. Ma. Isabel Cázarez, the children of the marriage, Ricardo, Rogelio, Adriana and Ruben (Jr.), and years later Rosella. Ruben his firstborn son lived with his mother Victoria.

Mr. Ruben, hard working man, taught his children to earn a living from an early age, Ricardo began working in the grocery since age 8, and Roger at 7. It was not long, about 8 years when Don Ruben decides that the management of the business should pass into the hands of his children, as he considered them better prepared academically, and thus could make better decisions. It was so from 1985, the two brothers begin to take charge of the family business, always guided by the vision and business experience of Mr. Ruben, who executed employee functions.

### 7.1.2 La Sucesión

Mr. Ruben was a born trader, however, he did not know how to manage, this led the company heavily into debt. At that time, with 22 and 20 years respectively, the brothers take administrative control of the company, they were studying careers in Accounting and Marketing Administration, his younger brothers studied high school and elementary school, his older brother was also part of the business, but not the administrative area.

By 1994, the debt of the company, which had not been able to solve, doubled by economic conditions that year.

The strategy selected to leave the problem, was what they call “Early Strategy”. They conducted a competitive analysis, identifying its 4 closest competitors, and realized that each of them were experts in certain types of vegetables, but were not competing with each other. They decided to divide the segments found, so that the Ricardo turned expert in 4 or 5 different vegetables, Rogelio in the rest, so far the competition has not realized the strategy selected by the company, therefore they remain the first in sales. By this time Mr. Rubén only participates in the business as an employee of his children, but always has been consulted in the decisions made in the company.

### 7.1.3 The Company Today

Regarding other family members, all the brothers except Ruben Jr., are part of the company, as shown in Annex 1

The company values are:

- Commitment of the spoken and treated, no agreements or contracts with suppliers or customers are signed, everything is based on trust agreements.

- Loyalty with suppliers and customers, establish business-family agreements.

And remaining consistent with the business philosophy, the values that have been instilled in the family are:

- Disciplined for work
- Constancy at work
- Passionate
- Solidarity
- Honorable
- Honest
- Generous

Currently the company is registered in the “Blue Book”, in which they are qualified as follows:

- Range: XXX, this implies a moral responsibility to the company, being the highest rating XXX.
- AA: Ability to pay in less than 4 days

Its main customers are in Lancaster, Los Angeles, Salinas, Phoenix, Guadalajara, Mexico, Monterrey, Baja California and Sonora, among others.

The growth of the company has allowed the development of business units that are managed by the same family:

- Holding: Rogelio
- Tract trucks: Adriana
- Foreign trade: Mr. Rubén
- Recruitment: Rosella

#### 7.1.4 Uncertain Future

The family genogram (Annex 2), shows a big family, but still young, and although the founder is still involved in the company strategically, the two main successors have not had a chance to prepare their successors, so the company presents a situation of uncertainty in the medium term, it is important to highlight that the family does not see a possibility of external administration, much less the sale of the company

### **8. Main Findings**

The steps to carry out the implementation of the semistructured interview to the family business, in order to develop a construct of the strategy-setting process within the succession process was:

- (1) Selection of the company studied
- (2) Meeting Agenda
- (3) Conduct the interview
- (4) Prepare notes
- (5) Transcribe and analyze annotations
- (6) Build the caseCategorización de los hallazgos
- (7) Conclusions and proposals

In the months from June to December 2013 semi-structured interviews, the entrepreneur, his successor and staff were conducted.

Each meeting lasted approximately from 120-150 minutes, every conversation was synthesized by the notes taken, and later put together the case study.

According to the propounds made in point are the following:

Independent variables	Main Findings
Succession plan,	The company has carried out an “indelible” way very early age of successors, where as they advanced in their academic preparation, responsibility with the company grew in the same way. In the coming generation, and it is not the subject of this research study, the problem of who will be the successor, and that this process has not been raised systematically.
Involvement in the company’s Successor,	The involvement with the successors of the 2nd. Generation is 100%, they are responsible for the administrative process and selection of the strategies followed by the company in the future in the short and medium term, all under the supervision and approval of the founder.
Training and Technical Knowledge by the Successor,	Here the successors are academically prepared to the professional level, none of them has worked in business outside his own company, the experience gained has been only within the family business. They are specialized in certain functional areas, without intervening in areas other family members.
External participation	According to the values and principles of the company, the presence of external is frowned upon, since 1994, the company has hired an accounting firm that serves only to do with tax audits, no part of the planning, the company or the administration thereof

#### **8.1 Results of Qualitative Research in the Researched Hypotheses**

Hypotheses	Description	Conclusion
[H1]	Family businesses that do not have a succession plan written and discussed with the successors will fail to implement its strategy, causing rapid death of the company.	In this case it is REJECTED since without a succession plan in writing the company has managed to grow, have reached agreements, policies and strategic guidelines that have possessed the company as the leader in its industry in Mexicali.
[H2]	Family businesses that besides having a succession plan in writing; successors have involved in various processes throughout the life of the company, have greater chances of having continuity.	This hypothesis is ACCEPTED, as the company in the second generation has succeeded, through the involvement of the successors, the established and grow in its market segment, however, begin to realize that require a succession plan, in addition to

		involve its third generation successors.
[H3]	Training and technical and administrative knowledge of the founder and the successor are essential for better communication, exchange of ideas and continuity.	This hypothesis is ACCEPTED as it is clearly demonstrated that the fact that all family members have finished a career has helped establish best marketing strategies and growth implemented in the family business.
Hipoteses	Description	Conclusion
[H4]	The participation of all parties is needed in implementing growth strategies of the family business, as well as an outside consultant who is on neutral ground.	This hypothesis is REJECTED, the company despite having an external consultant is not consulted for the implementation of the strategies of the company, is a consultant selected only for matters related to the administrative order. On the other hand, family policy determines that no external can manage the business as the same family. It is left as a case study for future research what might happen in the event that external assistance is used to prepare the third generation.

## 9. Conclusions

The results yielded by the research make the following learning,

- Not having a succession plan does not detract from the process itself, but actions should be very clear, constant and precise by the founder that success is achieved with the process.
- Involving successors so early to the company and the administrative processes of the same, will lead to a better understanding of the company.
- It is vital the academic training of successors, is not only market knowledge as a company gets out of difficult situations, it is required, as the company lived, the technical knowledge to develop strategies both commercial and financial & fiscal.
- The involvement of an external is an issue that still causes fear, mistrust and insecurity to entrepreneurs, however, is a step that should be considered if you want to continue the company over time.

## 10. Recommendations

The field of study of the family business has grown with the passage of time, the specific topic of succession is, as we have seen throughout the research, vital for the survival and growth of companies, similarly, it is important to have a common strategy for achieving targets, so I consider that emanated from this research can raise the following lines of future research:

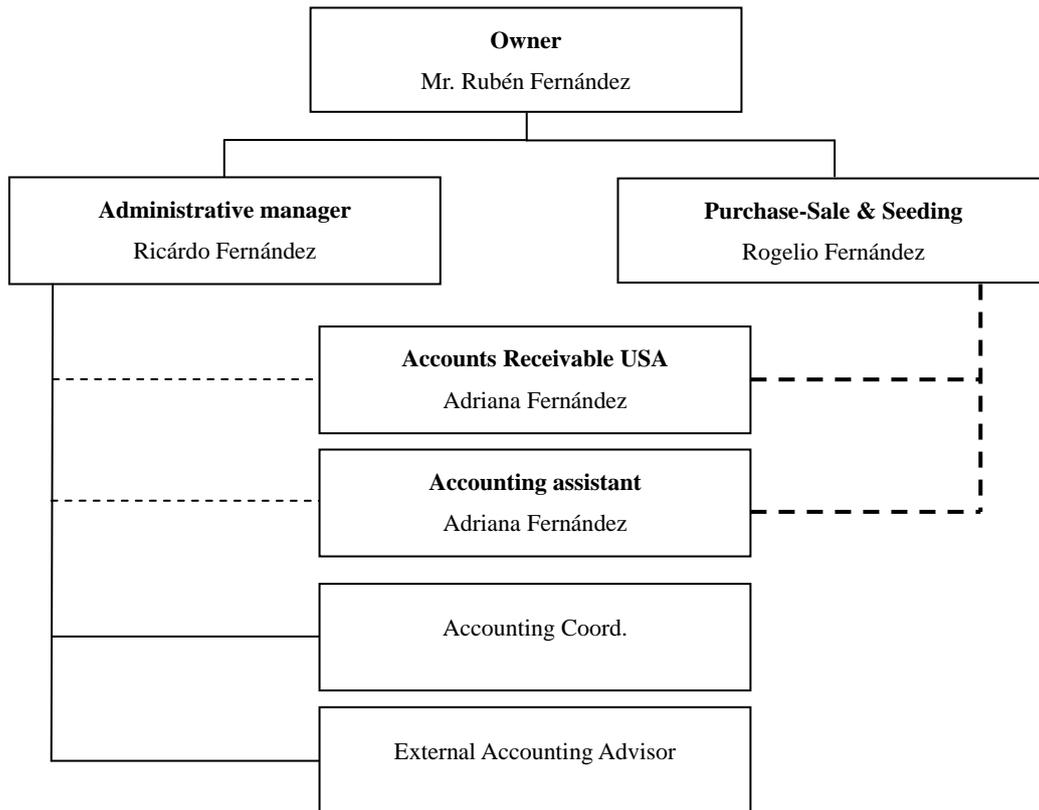
- Replicate the case study with companies in other sectors in order to measure results.
- Succession in the third generation and its involvement in the company
- The impact of family values in selecting growth strategies

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**Annex 1 Current Organizational Chart**



**Annex 2 Genogram**

