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THE ROLE AND CHALLENGES OF ENTREPRENEURIAL MANAGEMENT IN ENSURING BUSINESS CONTINUITY OF FAMILY ENTERPRISES DURING INTERGENERATIONAL TRANSITION

Abstract: *This paper examines the role of entrepreneurial management in the intergenerational transition of family businesses, analyzed through a qualitative research approach encompassing economic, social, and emotional dimensions. Findings reveal that a well-structured, multi-phase succession process—featuring early successor involvement and clearly defined criteria—enhances the likelihood of successful authority transfer while maintaining financial stability and preserving core family values. The transition typically entails a shift from autocratic to democratic leadership, reflecting a growing perception of employees as vital organizational assets. Successors demonstrate professionalism and innovation by adopting new sales strategies, advancing technological modernization, and utilizing external funding sources such as EU programs, thereby improving market competitiveness. Ultimately, successful intergenerational transition relies on clear governance structures, transparent decision-making, and a balance between socio-emotional and economic goals to ensure the long-term sustainable growth of the family enterprise.*

Keywords: *Intergenerational transition; entrepreneurial management; family business; family values; economic performance*

JEL codes: *M10; M13; L26; D23*

1. Introduction

Family businesses constitute the cornerstone of the global economy, accounting for approximately 70% of all business entities worldwide (PwC, 2024). This trend has equally influenced the Republic of Croatia, where the transition to a market economy in the early 1990s stimulated a rapid expansion of the private sector, and consequently, of family-owned enterprises. Over time, these businesses have come to dominate the small and medium-sized enterprise (SME) segment in Croatia. As the founders of family firms established in the late 20th century approach retirement age, an increasing number of such enterprises are confronted with questions of ownership transfer, management succession, and the challenges of intergenerational transition. The intergenerational transition in family businesses represents an exceptionally complex phase in the corporate life cycle, requiring years of preparation by all parties involved. Only through systematic planning can continuity of operations be ensured, potential disruptions to the company's performance avoided, and its long-established market reputation and credibility preserved. The complexity of this process stems from its multidimensional

nature, encompassing managerial, ownership, organizational, financial, strategic, and family dimensions. In such a context, entrepreneurial management plays a pivotal role in minimizing risks and ensuring a successful transition. The primary objective and function of entrepreneurial management during intergenerational transition are to maintain equilibrium between implementing long-term strategies based on modern business practices, preserving tradition as a fundamental pillar of corporate identity, introducing new managerial approaches into the governance structure, maintaining financial stability and performance, and safeguarding family interests and values. This paper, titled 'The Role and Challenges of Entrepreneurial Management in Ensuring Business Continuity of Family Enterprises during Intergenerational Transition,' examines the ownership, governance, and familial aspects of succession, as well as the establishment of entrepreneurial management practices that secure financial stability and operational continuity throughout the transition process. To identify and understand the critical elements of intergenerational transition, the study employs a qualitative research design based on semi-structured interviews with owners and management teams of family businesses that



have completed or are currently preparing for the succession process. The findings aim to contribute to a deeper understanding of key factors influencing successful transitions and to offer practical recommendations that may enhance the long-term sustainability and competitiveness of family enterprises in the Republic of Croatia.

The research question of this paper examines how entrepreneurial management contributes to ensuring business continuity in family enterprises during intergenerational transition, and what key challenges arise in the process of transferring management and ownership to the next generation. In this context, among others, the paper highlights issues such as the ability of entrepreneurial management to shape the family firm's capacity to adapt to change during the transition, the impact of the successor's entrepreneurial competencies and leadership style on business continuity, and the ways in which family values influence the success of intergenerational transition.

Previous research on the topic of intergenerational transition in family businesses indicates that it is one of the most challenging processes in the life cycle of family enterprises, with only around 30% successfully completing it. The analyzed scientific studies suggest that the success of the intergenerational transition directly depends on the quality of preparation for the transfer process, the level of competence of the successors, and the prudence in managing relationships among family members involved in the business.

Despite the fact that intergenerational transition represents a common stage in the life cycle of a family business, in most cases the transition results in reduced business activity and raises doubts about the long-term continuity of the enterprise. This negative outcome is largely the result of the inability to align family, ownership, and managerial interests, highlighting the complexity of the process. For all these reasons, this paper seeks to identify the elements of entrepreneurial management that contribute to the success of intergenerational transition in family businesses.

The problem or gap in the literature on this topic arises from the fact that, despite a considerable number of studies, there is no concrete answer regarding the impact of entrepreneurial management on the success of intergenerational transition. Most existing research has primarily focused on the financial and legal aspects of succession, rather than on the managerial and entrepreneurial dimensions of the process.

2. Theoretical and Conceptual Framework

Intergenerational transition represents one of the most significant yet most complex phases in the life cycle of a business enterprise. It is a process in which ownership, management, and family relationships intersect, making it highly sensitive and susceptible to various risks. To gain a deeper understanding of this process, numerous theories have been developed, each explaining it from organizational, economic, psychological, and sociological perspectives. Among the most prominent are the Three-Circle Model of the Family Business, Agency Theory, Stewardship Theory, and the Theory of Socioemotional Wealth. The shared objective of these theoretical frameworks is to provide insight into the key determinants of successful business succession across generations.

2.1. Family Business

A family business is defined as a creative, innovative, and risk-oriented activity undertaken by family members, aimed at investing and combining production factors to achieve desired goals and economic outcomes for both the enterprise and the family (Bakotić et al., 2016, p. 62). Family businesses are characterized by the concentration of ownership and management within the family, active participation of family members in decision-making processes, and a strategic orientation that emphasizes intergenerational continuity. The fundamental distinctiveness of this entrepreneurial form lies in the values of trust, loyalty, and cohesion, which are cultivated within the family and transferred to employees, fostering a strong sense of belonging and commitment. Family enterprises are most commonly financed through internal funds, with profits generated in previous years reinvested in business activities to create conditions for further growth and development. In terms of financing, a distinctive feature is that only a small portion of investments in family firms is financed through external credit sources. This stems from the strong sense of control among family members, as taking on credit risk—particularly when assets are pledged as collateral—is often perceived as a partial loss of managerial autonomy. Despite numerous advantages over non-family enterprises with different managerial and organizational structures, family entrepreneurship may also entail certain negative effects. The overlap between business and private life and interests can have a significant adverse impact on family relationships and, consequently,



on the management of the firm itself. Such conflicts most frequently emerge during the phase of succession planning and transfer of managerial authority between generations.

2.2. Theories of Intergenerational Transition

Theories developed to explain the intergenerational transition of ownership and management in family businesses can be classified into the following perspectives:

- Organizational perspective,
- Economic perspective,
- Psychological perspective and
- Sociological perspective.

The Three-Circle Model of the Family Business represents an organizational perspective developed by Renato Tagiuri, an Italian-born professor at Harvard Business School, and John Davis, an American scholar and one of the world's leading experts in the field of family business studies. This model is based on the assumption that a family business constitutes a system composed of three interrelated dimensions: family, ownership, and business (Bakotić et al., 2016). Within this framework, family members occupy different positions depending on whether they are owners, managers, employees, or solely members of the family that owns the enterprise. These varying roles and positions give rise to divergent interests, which can frequently lead to tension and conflict within the family system.

As in all forms of business ownership, family business owners are often motivated by the desire to achieve returns on their investments. This motivation can differ significantly from that of the managerial structure, which tends to prioritize operational efficiency and personal benefits linked to the firm's performance outcomes. Meanwhile, family members employed in the business typically do not share these ambitions; rather, they value a positive working environment and the preservation of the family's reputation and social standing.

When an individual moves from a managerial to an ownership position, this change frequently fosters a desire for personal advancement and profit, which, in turn, alters their perspectives regarding the direction and mode of corporate governance. Conversely, family members who transition from employee roles to managerial positions tend, over time, to place less emphasis on family tradition and values. They often seek to achieve operational efficiency and realize personal ambitions

through managerial approaches that increasingly neglect employee satisfaction and the quality of the working environment.

From the foregoing analysis, it can be concluded that the Three-Circle Model of the Family Business represents a complex and dynamic system in which the structure of business relationships mirrors the intricacies of familial relations. Within such a system, intergenerational transition frequently gives rise to both family and business challenges stemming from the evolving personal interests and changing statuses of individual family members.

The economic perspective is examined through the agency theory of intergenerational transition, which is based on the concept of the agency problem—the misalignment and conflict between altruistic and egoistic preferences. These opposing motivations typically reflect discrepancies between the interests of ownership and those of the management structure within a family business. The originators of this theory, American economists Michael Cole Jensen and William Henry Meckling, proposed that a potential conflict exists between business owners and managers regarding their individual goals. Their argument rests on the assumption that owners expect the managerial structure to increase the enterprise's value, while managers, on the other hand, tend to pursue their own interests in the form of higher compensation, non-financial benefits, and the stability and longevity of their professional status within the company.

The specific nature of family businesses in the context of agency theory and the agency problem arises from the fact that, in the initial stage of business development, ownership and management are usually vested in the same individuals. Consequently, the risk of agency conflicts is extremely low, as there is no real possibility of divergence between owners' and managers' interests. However, the phase of intergenerational transition represents a particularly vulnerable period in this context. Once ownership and management structures are divided between the founding generation and their successors, the likelihood of agency problems significantly increases. This occurs due to the emergence of new agency relationships characterized by differing interests, strategies, visions, and managerial capabilities. These differences primarily stem from the reality that the founders of family firms are proven entrepreneurs and managers who, often under unfavorable economic conditions, developed their businesses from the ground up and worked tirelessly



for years to build and position their brand in the market. Their successors, however, frequently assume managerial roles by virtue of inheritance rather than through demonstrated business competence or tangible performance achievements.

In addition to these challenges, new agency relationships also generate potential conflicts between active and passive family members, particularly in terms of reconciling their personal financial expectations with their actual contribution to the company's success. In conclusion, the agency theory of intergenerational transition identifies the emergence of agency problems between different generations and governance structures within a firm, thereby providing a framework for understanding the dynamics of owner–manager relationships and their respective interests. The intergenerational transition represents the most challenging phase of a family business lifecycle in this regard, as it exposes differences in interests, abilities, motivation, strategy, and vision between founders and their successors. The theory further underscores the necessity of establishing transparent succession procedures, implementing effective control mechanisms, and defining clear long-term strategies and objectives for the sustainable development of family businesses.

Stewardship theory represents a psychological perspective on intergenerational transition, developed by English sociologist Lex Donaldson and American professor James H. Davis. The theory is founded on the assumption that managers, or the managerial structure of a company, do not necessarily prioritize their personal interests over those of the owners or other family members. Rather, they are perceived as stewards of the enterprise who align their individual goals and values with the long-term strategic objectives of the family business. This theoretical approach stands in direct contrast to agency theory, which assumes that managers act primarily out of self-interest. Stewardship theory emphasizes personal and moral values such as responsibility, loyalty, trust, ethical obligation, and family cohesion, thereby reducing the need for extensive monitoring and control mechanisms within family enterprises. This theory holds significant psychological relevance for managers, as it assumes that they develop an emotional attachment to the business, that their role is not evaluated solely through material gain, and that they believe sustainable growth and long-term success of the enterprise ultimately translate into their personal well-being. During the intergenerational transition phase, stewardship theory becomes particularly relevant for founders who entrust management

responsibilities to professional managers, based on their belief that emotional connection to the family and enterprise will guide these managers to act in accordance with the family's identity and strategic goals. This alignment strengthens the relationship between ownership and management structures, positioning managers as stewards of the values, moral commitments, identity, and reputation that the founding generation has built through decades of dedication and sacrifice.

Criticism of stewardship theory primarily centers on its tendency to idealize the managerial structure. In practice, managers are not always competent, nor are they consistently motivated by emotional connection or moral obligation to the family enterprise. They may instead be driven by personal ambitions, financial gain, or self-interest, often neglecting moral and ethical considerations. The absence of both trust-based and formalized control mechanisms increases the risk of organizational instability and undermines the long-term sustainability of family enterprises. Furthermore, as stewardship theory places strong emphasis on emotional connection and shared moral values, it often overlooks the reality that not all family members share identical principles, goals, or strategic visions. These divergences can result in differing managerial approaches, individual interests, and conflicting business strategies, potentially harming organizational performance.

In summary, stewardship theory provides a valuable conceptual framework for understanding intergenerational transition in family enterprises, as it highlights the importance of emotional attachment, trust, and loyalty among managers, perceiving them as guardians of family identity and business continuity. However, proponents of this theory are frequently criticized for overidealizing managerial integrity, morality, and loyalty—traits that are not always evident in practice. Therefore, it is argued that stewardship theory should be complemented by perspectives from other theoretical frameworks, particularly those addressing risks of opportunism, conflicts of interest, and managerial incompetence. By integrating these additional perspectives, stewardship theory would offer a more comprehensive and realistic understanding of the complex process of intergenerational transition in family businesses, while on its own, it represents a valuable yet incomplete foundation for analyzing this phenomenon.

The theory of socioemotional wealth represents a sociological perspective on intergenerational transition in family businesses, developed in 2007 by Professor Luis Gomez-Mejia of Arizona State



University and his collaborators. This theory is based on the premise that family enterprises make decisions not solely for material gain but also to achieve non-economic benefits, such as preserving family values and maintaining the family identity that has been cultivated over many years through the business itself. In this context, socioemotional wealth can be defined as the intangible value that the family derives from its involvement in the business. It most often refers to the emotional attachment of family members to the enterprise, the strengthening of the family's social identity through the firm, and the transmission of that identity through intergenerational succession. These dimensions can be described using the FIBER model, which encompasses: Family control and influence, Identification of family members with the firm, Binding social ties, Emotional attachment, and Renewal of family bonds through dynastic succession (Berrone, Cruz, & Gomez-Mejia, 2012).

Within the framework of intergenerational transition, socioemotional wealth theory assumes that family business owners and founders prefer intra-family succession even when alternative ownership transfers might be economically more favorable. This tendency is driven by their primary objective—to ensure continuity in preserving family traditions, values, and identity. Consequently, the intergenerational transfer of a family business represents not merely a procedural shift in ownership and/or management but also a crucial mechanism for sustaining and enhancing the family's socioemotional wealth. However, this preference for internal succession, despite economic indicators suggesting the potential advantages of professional management or alternative governance models, is one of the main criticisms of the theory. Such behavior reveals a conservative orientation toward business continuity at the expense of innovation and competitiveness.

Critics of the theory also highlight its overemphasis on emotional values, which tends to downplay the economic dimensions of business performance and governance. This imbalance between material and non-material aspects of management can ultimately threaten the long-term sustainability of family enterprises. Although socioemotional wealth theory underscores that the success of a family business should not be measured exclusively by financial performance, it remains, like other theories of intergenerational transition, insufficient on its own to fully explain this complex phase of the business lifecycle. Nevertheless, it provides a valuable conceptual foundation for

understanding the distinctive nature of family enterprises. A more comprehensive theoretical approach would integrate socioemotional wealth theory with agency theory, which emphasizes the economic perspective, thereby establishing a balance between emotional and financial objectives and ensuring the coexistence of economic performance and family identity preservation.

3. Research Methodology

This study employs a qualitative research approach designed to capture and interpret the dynamics of intergenerational transition within family businesses. The chosen methodology enables an in-depth examination of both the objective and subjective experiences and attitudes of individuals directly and indirectly involved in the succession process, as well as the identification of specific interactions and behavioral patterns that cannot be effectively captured through quantitative methods. While quantitative research typically analyzes data derived from large sample sizes, qualitative research focuses on detailed exploration of a smaller number of cases, thereby providing a deeper understanding of the emotional and contextual dimensions of each case. Given that intergenerational transition is a complex process intertwined with business, personal, and familial relationships and interests, a qualitative methodological framework—based on interviews and the analysis of long-term succession processes in family enterprises—offers a robust foundation for investigating the transfer of ownership rights and managerial authority, and their influence on the long-term strategies and development of such enterprises. This methodological approach also contributes to understanding the critical role of emotions in shaping decisions regarding the mode and structure of intergenerational transition in family businesses.

3.1. Data Collection

The research was conducted using case study methodology based on a purposive sampling approach that met three specific criteria: (1) continuous business operation for more than twenty years, (2) the presence of an intergenerational transition process or preparation for one, and (3) the availability of documentation on the succession process and/or the willingness of family members to participate in the study. In accordance with these criteria, the research included three family businesses from different sectors—one from the manufacturing sector, one from



the trade sector, and one from the manufacturing–trade sector specializing in niche products. Data for the qualitative research in the manufacturing enterprise were collected through semi-structured interviews. The interview questions addressed topics such as emotional attachment to the business, preparation of the younger generation for assuming responsibility, challenges of entrepreneurial management in transferring ownership and managerial authority between generations, the influence of emotions and family relationships on the transition process, the impact of intergenerational transition on employee motivation and organizational climate, and differences in long-term vision and development strategies between the first and second generations of ownership and management structures.

The study conducted in the manufacturing–trade company specializing in niche products employed a combination of semi-structured interviews and document analysis. The interviews explored issues such as challenges in transferring managerial authority, the successors' interest in assuming leadership roles, differences in strategic vision between the two successors, emotional attachment to the business, and the importance of family identity in relation to the wider community. In addition, longitudinal observation of key business events related to the preparation for intergenerational transition was conducted through direct business collaboration.

Data collection for the case study involving the company from the trade sector relied entirely on

document analysis and the author's long-term professional experience with the enterprise. Due to the specific nature of the succession process in this case—shaped by strained family relationships and the need to preserve family reputation and identity in the community despite adverse circumstances—this case study provides a particularly valuable foundation for understanding the delicate balance between socioemotional wealth and economic perspectives during intergenerational transition.

Qualitative research based on interviews, consisting ten core questions followed by additional questions and discussion depending on the responses of the interviewees. The table below presents the ten core interview questions.

3.2. Data Analysis

Case 1: Manufacturing Company

The family business from the manufacturing sector has been engaged in the production of agricultural products for more than thirty years, selling its goods both domestically and internationally, primarily to retail chains. The company is classified as a medium-sized enterprise, currently employing around fifty workers. During the first two decades of operations, the founders—a married couple—performed all managerial and administrative functions within the company, while other family members provided assistance and support

Table 1. Interview Questions

1.	How did the process of transferring management to the next generation unfold in your company?
2.	What do you perceive as the greatest challenge in transferring managerial and/or ownership responsibilities between generations?
3.	What potential conflicts or disagreements arose between generations during the transition, and how were they resolved, if any?
4.	Is there a difference in the future business vision between generations, and how is it aligned if such a difference exists?
5.	In what way did emotions, family ties, and expectations influence the course of the transition?
6.	Which part of the managerial and/or ownership rights have you transferred to the younger generation, and why?
7.	Have family members who are not directly involved in the company's operations influenced decisions related to the transition?
8.	How has the intergenerational transition affected employee motivation and the organizational climate within the company?
9.	How did leadership and communication styles within the company change during the transition?
10.	Which competencies and values do you consider essential for leading a family business in today's conditions?

Source: Author



as their time and capacity allowed. Approximately ten years ago, the founders' son graduated from the Faculty of Agronomy, marking the beginning of an intensive phase of intergenerational transition within the analyzed family business. According to respondents, the intergenerational transition process—which resulted in the transfer of both managerial authority and a portion of ownership to the son—lasted roughly ten years and unfolded through several distinct phases. During his secondary and university education, the son was gradually involved in the company's operations, primarily assisting with physically demanding tasks such as harvesting, loading and unloading products, storage, packaging, and delivery. Upon completing his formal education, he gained professional experience in the sale of agricultural chemical protection products, after which he began assuming managerial responsibilities within the family enterprise. Interviewees emphasized that the greatest challenge in the intergenerational transition of their family business was related to entrepreneurial management—particularly aspects concerning leadership, corporate strategy, employee motivation, innovation, market adaptability, and resource management. They particularly noted the contrast between the leadership styles, long-term visions, and market responsiveness of the founders compared to their successor. Over the years, the founders had cultivated an autocratic leadership style characterized by centralized decision-making, limited communication with employees and business partners, and a strong operational focus on fieldwork. This approach left little time for identifying new business opportunities, fostering innovation and creativity, or acquiring the necessary knowledge and capacity to implement modern machinery and equipment into the company's production processes.

Aware of the generational differences, the founders decided to give their son's ideas and new leadership style a chance, provided that no negative impact on the company's operational or financial performance was observed. In this way, the new director transformed the company's leadership approach by delegating part of the operational production tasks to employees and focusing on external relations with customers and suppliers, attending trade fairs, exploring new business opportunities, analyzing competitors, and identifying potential financing options—activities he believed could significantly contribute to the company's growth in line with his strategic vision and goals.

The young director identified an opportunity for substantial business expansion through cooperation with retail chains as distribution channels. However, achieving such collaboration required the implementation of modern mechanization in the production process, which the company did not yet possess. With the successful completion of projects co-financed by the European Union, the family enterprise made significant investments in production facilities, equipment, and the construction of a new storage facility. Following these investments, the company established cooperation with a major retail chain in Croatia, which created a need for increased production volumes of agricultural goods. Under these newly established circumstances, the company also began collaborating with smaller agricultural producers, purchasing their goods for resale—a business model that continues to operate successfully to this day. These developments clearly reflect the company's new growth strategy, improved resource management, and adaptability to market needs, which were previously at a minimal or nearly non-existent level.

In terms of the intergenerational transition's impact on employees, respondents emphasized substantial positive changes. The former autocratic management style was replaced with a democratic approach, and the new leadership invested significant effort in employee motivation, improving working conditions, enhancing communication, and introducing a reward system. By establishing new material and non-material employee rights, valuing workers' opinions and perspectives, improving workplace conditions, and promoting constructive, well-reasoned feedback, closer relationships developed between employees and the owning family. This transformation fostered a more pleasant and stimulating work environment. Respondents concluded that the intergenerational transition had an "extremely positive effect on employee motivation and organizational climate".

Family members emphasized that an essential aspect of the intergenerational transition in their family business involved the relationships among all immediate family members and their collective influence on business operations. Decision-making processes served as a foundation for open discussion within the family, regardless of whether a particular member belonged to the ownership or managerial structure. During such deliberations, all constructive and well-argued suggestions, observations, and even criticisms were welcomed. Nevertheless, the ultimate decision-making authority rested solely with the com-



pany's owners and management. Respondents further stated that this governance model and the intergenerational transition itself did not result in any deterioration of familial ties or relationships. The founders noted that, in preparing for the transition process, they had established two key criteria for their successor to meet: (1) maintaining satisfactory economic and financial performance to ensure the company's continued growth and meet the reasonable needs of family members, and (2) preserving the family's identity, reputation, and social standing within the wider community. According to the respondents, the competencies and values most critical for leading a family enterprise under contemporary market conditions include knowledge, experience, honesty, respect, objectivity, and rationality. In conclusion, participants expressed strong satisfaction with the manner in which the intergenerational transition was implemented, the company's post-transition business results, and its strengthened market position. They also emphasized their intention to retain majority ownership and formal participation in the company's management structure.

Case 2: Trading Company

The analyzed company from the trade sector has been operating in the Croatian market for more than thirty years, primarily engaged in retail activities. It is classified as a medium-sized enterprise, currently employing over one hundred people. During the first fifteen years of its operations, the business structure was characterized by a model in which the founding spouses were the sole owners of the enterprise, with one of them holding all managerial responsibilities. Other family members neither possessed ownership rights nor managerial authority—some were employed in the company, contributing through their work, while others were not involved in the business at all.

The intergenerational transition process began approximately fifteen years ago and accelerated following the emergence of agency problems—specifically, tensions arising from the divergence between altruistic and self-interested motives among certain family members. The transition process, involving the transfer of both managerial authority and partial ownership to the successors, lasted roughly three years and unfolded through only a few stages. The founders, who had several children, had employed some of them prior to the formal transfer of management rights. Through years of experience, these children became famil-

iar with the company's business model, partners, operations, financing mechanisms, and work environment, thereby acquiring the competencies necessary for assuming leadership roles. Unfortunately, family issues stemming from deteriorating interpersonal relationships significantly affected the pace of the transition, as the process itself was intended to serve as a mechanism for resolving internal conflicts and dissatisfaction resulting from the misalignment of interests among different family members.

The primary challenge during the transition process in the analyzed family business stemmed from differences in business strategy, corporate vision, innovation, and market adaptability between the founders and their successors. The successors, in this case study, exhibited markedly different personalities from their parents, who had long managed the business autocratically. Consequently, a significant shift in leadership style occurred early in the transition, accompanied by the introduction of enhanced employee benefits and the establishment of a long-term corporate development strategy.

The new management directed its efforts toward the development and improvement of the company's sales channels, viewing this as a prerequisite for sustainable long-term growth. In pursuit of a business model that could ensure growth supported by rational resource utilization, management launched online sales of retail goods, which resulted in a substantial reduction in costs compared to traditional retail operations and mitigated challenges in recruiting qualified personnel. The young management also recognized an opportunity for further business advancement through the introduction of product processing and refinement, adding significant value to goods at relatively low cost. However, this business model required substantial investments in facilities, machinery, and equipment—resources that the company did not yet possess.

Through the successful implementation of projects co-financed by European Union funds, the family enterprise undertook major investments in the construction of new facilities and the acquisition of the necessary production equipment for processing operations. The new management's dedication and strong work ethic yielded significant economic results for the company; however, the absence of ownership rights and adequate compensation led to frustration and dissatisfaction among the successors. This tension gave rise to new conflicts within the family, prompting the founders to transfer a portion



of ownership to the successors as an incentive for continued motivation and commitment. A distinctive feature of this company's intergenerational transition lies in the abrupt shift from an autocratic to a democratic leadership style, whereby all immediate family members—regardless of their active involvement in the company—were included in both ownership and management structures. Although not all family members' opinions carried equal weight in decision-making, this governance model often generated conflicts due to substantial differences in understanding business priorities between actively involved managers and family members with only formal roles. Furthermore, an additional managerial challenge arose from the divergent personal interests of family members: the management focused on business prosperity, the preservation of family and corporate reputation, and employee satisfaction, while non-active family members were primarily concerned with securing personal financial gain. Regarding the impact of intergenerational transition on employees, the study found moderate positive changes, notably in the enhancement of employee benefits, which improved overall job satisfaction. Nevertheless, there remains room for improvement in communication, employee engagement, and the consideration of workers' opinions within the organizational context.

The founders embarked on the process of intergenerational succession with the goal of preserving two core principles of their business philosophy: first, to maintain and, if possible, enhance the family's identity, social reputation, and prestige, and second, to increase the economic benefits derived from the family enterprise. These criteria are often in conflict, as entrepreneurs are sometimes compelled to make socially unpopular business decisions to achieve financial gain for both the company and themselves, which may directly jeopardize their standing within the broader community. In the analyzed family enterprise, several competencies and values were identified as essential for overcoming challenges faced by entrepreneurial management, including honesty, knowledge, rationality, respect, and appreciation for others' perspectives. In conclusion, the founders believe that the intergenerational transition in their company was successfully executed to the satisfaction of all family members, regardless of their formal roles or ownership positions. They intend to retain a minority ownership stake for two reasons: to continue benefiting financially from the business and to preserve partial participation in the company's strategic decision-making process.

Case 3: Manufacturing and Trading Company

The study of the intergenerational transition process in a family business operating in the production–trade sector of specialized goods focuses on a small enterprise currently preparing for succession. The company employs approximately fifty workers and has been active in both domestic and international markets for over thirty years. It sells its products through retail outlets in Croatia and abroad, wholesale channels, and online platforms. For many years, the business engaged exclusively in trade, while over the past decade it has introduced production and launched its own brand of specialized products. Throughout its thirty-year history, this family enterprise has been organized so that the sole founder simultaneously held all managerial roles, while the successors were employed within the company and significantly contributed to its growth and development. Despite the concentration of ownership and management authority, the founder is described as approachable, professional, and experienced, having established effective communication practices and showing respect for the opinions, perspectives, and even criticisms of both family members and employees. The company has initiated preparatory steps toward implementing an intergenerational transition, although the formal transfer of managerial authority and ownership rights has not yet begun. The founder has two successors, both of whom have been employed in the company for several years and are actively involved in its most important operations. Through long-term engagement, they have gained deep familiarity with the business model, partners, processes, financing mechanisms, and work environment—forming a solid foundation of competencies necessary for assuming managerial responsibilities. The successors are primarily responsible for procurement and sales, as well as attending international trade fairs, but they do not currently influence employee compensation policies or participate in managing financial and human resources. Their professional skills and competencies have been recognized not only within the company but also by suppliers, including major brands and leading multinational corporations in the sector. The broad spectrum of business opportunities available to the successors constitutes the greatest challenge in the forthcoming intergenerational transition. They perceive that these external opportunities offer substantially greater prospects for personal and professional advancement than managing the family firm. The founder, while expressing pride in the personal and professional achievements of



the successors, also highlights their contrasting long-term visions and strategies for the future of the family business.

One of the successors expressed a clear intention to continue managing the family business in a manner similar to that of his father, aiming to maintain the company's headquarters in the Republic of Croatia and to conduct trade through domestic and international retail outlets, wholesale distribution, and online sales. His vision emphasizes preserving his father's legacy, the family's reputation and identity, and the core values cultivated over three decades within the broader social community. His aspiration is to manage the business in a way that ensures sustainable growth and enables future generations to continue the family enterprise.

In contrast, the long-term vision and business strategy of the other successor, although respectful of family and moral values as well as the family's public reputation, demonstrate a weaker emotional attachment to the continuation of the family business. This stems from his interest in pursuing an international career and the possibility of integrating the family enterprise into a multinational corporation that has already expressed acquisition interest. His ambition focuses on assuming global sales functions for the company's products. His eloquence, formal and informal education, fluency in foreign languages, and passion for travel and cross-cultural engagement make him a promising candidate for such a role. However, under these circumstances, it is evident that the family business, which has operated successfully for more than thirty years, would likely cease to exist in its current form. Although the founder does not wish to constrain his successors' personal or professional ambitions, he clearly articulates his desire for the family enterprise to continue operating on its established foundations.

These circumstances directly influence the duration of the intergenerational transition in the analyzed family business, which will continue until all parties' strategic orientations are reconciled. During this transitional period, the founder retains full ownership and managerial authority and governs through a hybrid leadership approach that combines elements of autocratic and democratic management. When making major business decisions, he consults with all relevant stakeholders, listens carefully to their opinions and perspectives, and considers their input, yet he ultimately makes decisions independently. His decisions consistently reflect a balance between achieving eco-

nomical objectives and maintaining moral integrity, honesty, and family values. This approach is evidenced by his refusal to make emotionally driven or socially popular decisions that fail to generate economic benefits for the company, as well as his avoidance of financially motivated decisions that would conflict with fundamental principles of morality, family ethics, and social responsibility.

The prolonged process of intergenerational transition in the analyzed family enterprise, despite its inherent uncertainties, has not produced any negative effects on employees. This stability can be attributed to the founder's long-term management approach, characterized by accessibility, the creation of a supportive and stimulating work environment, and the establishment of a transparent reward system that ensures employees' material rights. Through these practices, the founder has cultivated a corporate culture in which employees feel secure, do not perceive their future as threatened by the ongoing succession process, and remain highly loyal to the founder, who treats them as valued partners. The founder emphasizes professionalism, prudence, empathy, and integrity as key competencies and values essential for the successful management of a family enterprise in contemporary market conditions. These attributes, in his view, are fundamental to sustaining both operational excellence and interpersonal trust within the organization.

In conclusion, the owner of the family business maintains a strong interest in ensuring that the intergenerational transition process is implemented in a manner that satisfies all family members as well as the company's employees. Nevertheless, he expresses a clear preference for the family business to continue operating in a way consistent with its long-established practices—remaining economically successful while preserving the family's status, identity, and reputation within the community, all of which have been cultivated over many years. Furthermore, at least until a final decision is made regarding the future direction of the company, the founder intends to remain the sole owner of the family enterprise.

4. Discussion

The findings of the qualitative research conducted on three family businesses operating in the manufacturing and trade sectors highlight the inherent complexity of the intergenerational transition process. The success of transferring ownership and managerial rights to successors largely



depends on systematic planning, the gradual involvement of successors in business decision-making, and the establishment of their status and authority within the family enterprise. Despite the fact that all three analyzed enterprises share certain similarities—such as long-term business continuity, the significance of family involvement, and the need to ensure the transition of ownership and managerial responsibilities—this study identified considerable differences in the duration of the process, leadership styles, resource management approaches, and the influence of leadership and intergenerational transition on employee relations and workplace climate. Accordingly, the analysis of research findings is structured around several dimensions of entrepreneurial management, including the duration and stages of intergenerational transition, the impact of transition on leadership styles, family relationships during and after the process, successor characteristics critical to successful transition, and the influence of transition on employee morale and organizational culture.

The intergenerational transition process proved to be highly individualized, with the timing and phases of transferring ownership and managerial authority depending on the successors' preparedness, the founders' willingness to delegate authority, and the complexity of family relations. A transition process that is strategically planned and accompanied by the successor's preparation for new roles substantially increases the likelihood of success and mitigates the risks described in the theoretical framework of this article.

In contrast, the trading enterprise underwent the intergenerational transition in a much shorter period, amid the emergence of agency-related conflicts among family members arising from divergent personal interests and management visions. Despite limited preparation time and strained family relations, the intergenerational transition in this family-owned trading company was ultimately successful, with the firm achieving satisfactory economic performance while continuing to uphold the family's reputation, identity, and social status. One of the most significant findings of this study pertains to the transformation of leadership styles throughout the intergenerational transition process. In all three companies examined, the original founders were characterized by an autocratic management style, which entailed strict personal control over major business activities, limited communication with employees and family members, and a high degree of centralization in

decision-making. Although such a leadership style can be effective during the initial growth phase of an enterprise, changes in employee profiles, market structures, and other operational dimensions over the past three decades indicate that a prolonged reliance on autocratic management may lead to reduced innovation and adaptability, thereby constraining long-term growth and organizational performance within family businesses. In contrast to the founders, the successors demonstrated a stronger inclination toward a democratic leadership style—one that fosters communication, teamwork, and employee participation in decision-making. In the manufacturing enterprise, this transformation resulted in higher employee motivation, the introduction of performance-based reward systems, and improvements in workplace conditions and organizational climate. In the trading enterprise, however, the shift toward a democratic governance model also led to the emergence of conflicts, as all family members—including those not actively involved in the company—were granted the right to participate in decision-making. Such a model can generate adverse effects on business performance when competencies, responsibilities, and the rights and duties of individual members and their respective roles are not clearly defined.

Given that most family businesses are founded upon core family values and have built their identity and reputation over many years, it is evident that family relationships represent one of the most sensitive yet most influential dimensions of the intergenerational transition process. In the manufacturing enterprise, communication and mutual trust among family members were identified as key determinants of successful intergenerational transition. This company makes business decisions by taking into account all arguments and viewpoints expressed by immediate family members, while maintaining a clearly defined right of the owners and management to make final business decisions and to bear responsibility for their outcomes.

In contrast to the findings derived from the manufacturing company, the trading enterprise experienced disruptions in family relationships and conflicting interests, which accelerated the implementation of the intergenerational transition process. Disagreements between family members involved in company management on one side, and family members holding ownership rights but not participating in management on the other, led to a decline in managerial efficiency. This issue was partially resolved by meeting some of man-



agement's demands, namely increasing decision-making autonomy and improving material benefits.

In the final analyzed case—the production and trade enterprise—family relationships have not yet been disrupted, most likely due to the fact that the formal intergenerational transition process has not yet begun. However, the identified differences in long-term visions and business strategies between the founder and his successors suggest a high probability of future disagreements. Such divergences in the future vision of the family enterprise are likely to have a direct impact on the course of the intergenerational transition, as well as on subsequent changes in the company's operational and financial management practices.

An analysis of the three family enterprises reveals the presence of core competencies and knowledge considered essential and prerequisite for effective management of family businesses. These can be defined as knowledge, experience, integrity, rationality, and respect for employees. These values simultaneously form the foundation for preserving fundamental family values that directly influence the reputation, social legitimacy, and identity of both the family business and the family name itself. The process of intergenerational transition in family businesses does not merely entail changes in ownership and managerial structures; rather, successors also assume the role of guardians of the family business identity. They are expected to achieve the company's economic objectives while adhering to generally accepted moral and ethical standards, thereby preserving its reputation and ensuring the long-term sustainability of operations. The changes in leadership styles observed in the analyzed companies have had a direct impact on employees and the working environment. In enterprises that have completed the intergenerational transition, successors introduced a democratic leadership style, which has directly contributed to increased employee motivation and a strengthened sense of organizational belonging—fostered through employee participation in discussions concerning key business decisions. Employees are perceived by successors as valuable assets to the company, whose opinions and perspectives deserve consideration. As evidence of this appreciation—particularly in the manufacturing enterprise—a comprehensive reward system was implemented, providing both material and non-material benefits for high-quality work. Employee satisfaction largely depends on transparent communication between management and staff,

which fosters a sense of belonging and loyalty that typically results in higher-quality performance. Conversely, workplace conflicts negatively affect employee efficiency and restrict the company's development potential. It is therefore evident that democratic leadership, which emphasizes respect for all participants in the business process, directly contributes to an improved organizational climate, typically resulting in increased productivity and forming the foundation for the long-term prosperity of the family enterprise.

5. Conclusion

The study titled 'The Role and Challenges of Entrepreneurial Management in Ensuring the Continuity of Family Business Operations During Intergenerational Transition' demonstrates that intergenerational transition in family businesses constitutes a transformative process across multiple dimensions—organizational structure, economic positioning, and family relations—whose success critically depends on the quality of planning, professionalization of management, and value alignment across generations. Through the conducted qualitative research and comparative analysis of three case studies, three fundamental insights have been confirmed. First, the process of intergenerational transition proves to be most successful when implemented gradually, through clearly structured phases that include early involvement of successors in the business, mentorship by the founders, and precisely defined criteria for the transfer of ownership and managerial rights. Such an approach enables successors to acquire the necessary competencies and authority, thereby increasing the likelihood of a stable transfer of responsibility and the preservation of the company's financial stability while simultaneously maintaining family values. Conversely, abrupt and insufficiently prepared transitions—particularly those occurring under conditions of conflicting interests and divergent business visions—frequently lead to fragmentation of authority, reduced efficiency, and the need for subsequent institutional interventions.

Intergenerational transition in family businesses almost inevitably leads to changes in leadership styles. The authoritative, often autocratic approach of the founders—characteristic of the early stages of business development—gradually gives way to a more modern, open, and democratic leadership model fostered by successors. This new style is grounded in participatory decision-making and the acknowledgment of employee



perspectives, thereby fostering innovation, professionalization of business processes, and a positive organizational climate characterized by higher motivation, improved reward systems, and two-way communication. However, if the process of change is not clearly structured and boundaries of responsibility are not well defined, broad participation can result in overlapping authority and lead to conflicts between active and passive family members involved in ownership structures. This process frequently produces a strategic shift introduced by the younger generation of successors. The new managerial approaches reflect contemporary business trends, such as diversification of sales channels—for example, through the development of e-commerce—investments in technological modernization, and active utilization of external financial resources, including European Union funds. Such orientation not only enhances the competitiveness of the enterprise but also confirms transition as a key driver of modernization, innovation, and the strengthening of market position. Nonetheless, the long-term sustainability of these changes depends on the successors' ability to preserve the reputation and core values upon which the business was built, including family identity, trust, and ethical conduct.

Based on the findings of the qualitative research conducted and other insights gained in this study, it can be concluded that intergenerational transition in family businesses transcends the formal act of ownership transfer and represents a profound process of strategic, organizational, and familial transformation. At its core, it constitutes a paradigm shift that requires a delicate balance between tradition and innovation, continuity and adaptation. The success of this process is achieved when entrepreneurial management effectively integrates three fundamental dimensions: the preservation and transmission of family values as sources of identity and trust; the transformation of management and business processes to achieve efficiency and transparency; and the orientation of the enterprise toward innovation, digitalization, and sustainable development. Such an integrated approach enables family businesses to maintain business continuity and preserve family identity and reputation, while simultaneously enhancing their competitiveness and social responsibility. In doing so, the family business evolves beyond a mere economic entity—it becomes a lasting bearer of values, identity, and stability within the economic and social landscape.



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