# THE GLOBAL STEP BOOKLET

**VOLUME I:** EVIDENCE-BASED, PRACTICAL INSIGHTS FOR ENTERPRISING FAMILIES

STEP PROJECT
FOR FAMILY ENTERPRISING

# The Global STEP Booklet

Dear STEP business families and scholars,

For the past five years, researchers and practitioners in the Successful Transgenerational Entrepreneurship Practices (STEP) Project have worked together to explore one common question:

**How do family firms create value across generations?**

After five years it is time for STEP's network of 33 partner universities, 125 scholars and more than 75 families to reflect on our answers to this question. This booklet presents the first comprehensive effort to showcase what the global STEP community has discovered regarding the transgenerational success of family firms. Based on the common STEP research purpose and framework, this booklet presents the most interesting research findings of STEP members from around the world.

Overall, we find that the major building blocks of our knowledge lie in the entrepreneurial attitudes and family-influenced resources of the firms. These factors contribute greatly to a firm's entrepreneurial and competitive performance. We explore these unique family capabilities throughout this book and learn how values, networks, knowledge, and governance contribute to generation spanning wealth creation.

This booklet represents an attempt to "translate" the new research knowledge, which is being documented in our Edward Elgar Book Series and an increasing number of scholarly publications for a broader practitioner audience. It chronicles the tremendous effort made over the last five years and provides many valuable new insights. In this way, the booklet itself offers a modest contribution back to the family firms around the world who have inspired and taught us.

Without our network of rigorous and delightful scholars and family members, the successes of STEP and this booklet would not have been possible. We wish to express our deepest gratitude to this wonderful community.

While we are happy to be at a place where we have valuable insights to share in this booklet, our work is not finished. There is still much to be discovered in the complicated and fascinating world of family firms. We look forward to the next five years of exploring transgenerational entrepreneurship!

Warm regards,

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# STEP Research Overview

The Successful Transgenerational Entrepreneurship Practices (STEP) project is based on the concept of transgenerational entrepreneurship, a way to examine, understand, and explain entrepreneurship within the context of the family. It is "the processes through which a family uses and develops entrepreneurial mindsets and family influenced capabilities to create new streams of entrepreneurial, financial and social value across generations."[1]

STEP RESEARCH FRAMEWORK




Transgenerational entrepreneurship consists of 1) a focus on the family as the transgenerational engine, 2) the entrepreneurial mindset of the family (entrepreneurial orientation), 3) the family's influence on firm resources (familiness) 4) contextual factors, and 5) entrepreneurial, financial and social performance. The figure "STEP Research Framework" above shows our theoretical foundations in greater detail.

STEP scholars around the world follow this framework and develop in-depth case studies. For a family business to be included in the STEP project, four criteria have to be fulfilled:

- The family must be active in management of at least one operating business so that we are not only looking at liquid or passive shareholding families.
- Family ownership in the main operating business must be above 50 percent voting shares to significantly control the strategic direction of the firm.
- At least second family generation involved in ownership and/or management.
- The family has a transgenerational intention, that is, an ambition to pass on the business to the next generation of family members.

In the STEP research project researchers follow a common research methodology by collecting empirical material through personal interviews with key actors and secondary data sources, such as web sites, annual reports and media articles. After conducting the interviews, one case study report (30-50 pages) for each family firm is written in a common structure. This procedure allows convenient cross-case comparisons and additional valuable insights for both academics and practitioners. For a detailed description of the research methodology refer to the following endnote.[2]

# Key Insights at a Glance

The process of creating new streams of value across time is a complicated phenomenon with many factors playing a significant role. Despite the diverse factors and global nature of family firms, our analysis of the learning from the STEP Project has revealed at least four common themes:

- Entrepreneurial attitudes, behaviors, and performance
- Resources and familiness
- Governance and planning
- Knowledge and competencies

We have organized the booklet according to these themes. In the chapters that follow you will find the analysis of scholars and the cases of families from around the world. Below is a quick summary of key insights from each chapter:

### Chapter Overview

- Research in Switzerland has shown that the more entrepreneurial orientation the better is not necessarily true when trying to achieve long-term success.
- The Venezuelan case studies show that different forms of social capital play a very important role when family businesses cope with environmental uncertainty.
- Case studies from Hong Kong illustrate that portfolio entrepreneurship is a viable strategy for long-term success, and reveal some best practices.
- The Italian team sheds light on business exit and explains how divesting a business can be a wise, long-term decision.
- Research in Central America provides best practices from cases on the role of managing environmental circumstances, entrepreneurship, family values, and professionalization for long-term success.

- Evidence from Sweden demonstrates the importance of developing communication competencies within a family and the power of strategic dialogues.
- The Malaysian team provides a detailed insight on the relationship between families influenced resource pools and entrepreneurial performance.
- An Irish case study further increases our understanding of the relationship between social capital, especially networks and reputation, and transgenerational success.
- The Taiwanese team investigates the importance of family and firm life stage in innovation.
- The German team emphasizes the importance of entrepreneurial teams for renewal and growth, and provides guidance for self-assessment of family entrepreneurs.
- Based on case studies from Scotland and Uganda, researchers from these countries illustrate the importance of unplanned events and long-term strategic planning.
- The Chilean team investigates the issue of strategic family planning and provides a useful process tool.
- The Indian case studies allow a close look at governance systems and strategies for transgenerational value creation.
- The Mexican chapter uses cases to provide insights into the process of knowledge integration among generations.
- The Colombian team provides interesting findings on tacit knowledge and the discovery and enactment of entrepreneurial opportunities.
- The Spanish team explores critical factors that determine competent entrepreneurial business families.
- The English/Cypriot team explores the value of and tools for collective organizational learning in the context of entrepreneurship.

# Entrepreneurial Attitudes, Behaviors, and Performance

## Switzerland: How Much Entrepreneurial Orientation (EO) Is Needed for Long-term Success?

*Thomas Zellweger and Philipp Sieger, University of St.Gallen*

According to the STEP research framework, entrepreneurial orientation (EO) is one key element of transgenerational value creation. EO refers to key entrepreneurial processes in a company, i.e. to the methods, practices and decision-making styles managers use to act entrepreneurially.[3] EO consists of five main dimensions and several sub dimensions.[4]

THE 5 DIMENSIONS OF EO

| |
|---|
| **Autonomy**<br>Internal autonomy: freedom to act of individuals and teams within an organization<br>External autonomy: independence from third parties such as banks, suppliers, etc. |
| **Innovativeness**<br>Internal Innovativeness: innovations within the firm, e.g., systems and structures<br>External Innovativeness: innovations such as new products, markets, services |
| **Risk taking**<br>Business risk: risk associated to operational decisions that endanger the whole company<br>Ownership risk: risk of family members of investing all assets in one company<br>Control risk: risk of losing control over the company |
| **Proactiveness**<br>Propensity to exploit opportunities ahead of competition |
| **Competitive aggressiveness**<br>Propensity to directly and offensively challenge competitors |

However, there is a puzzle. Many studies suggest that the higher EO, the more successful a company is.[5] [6] But this seems not always to be true. Just think of many of the dot.com firms at the end of the 1990s. Firm members could act very autonomously, the companies were very innovative, took high risks, were very proactive and very aggressive in the market. However, most of them were not able to survive for more than a few years. Referring to the EO

dimensions, high values or scores do not seem to guarantee survival, leading to a pattern that we call "score high and die."

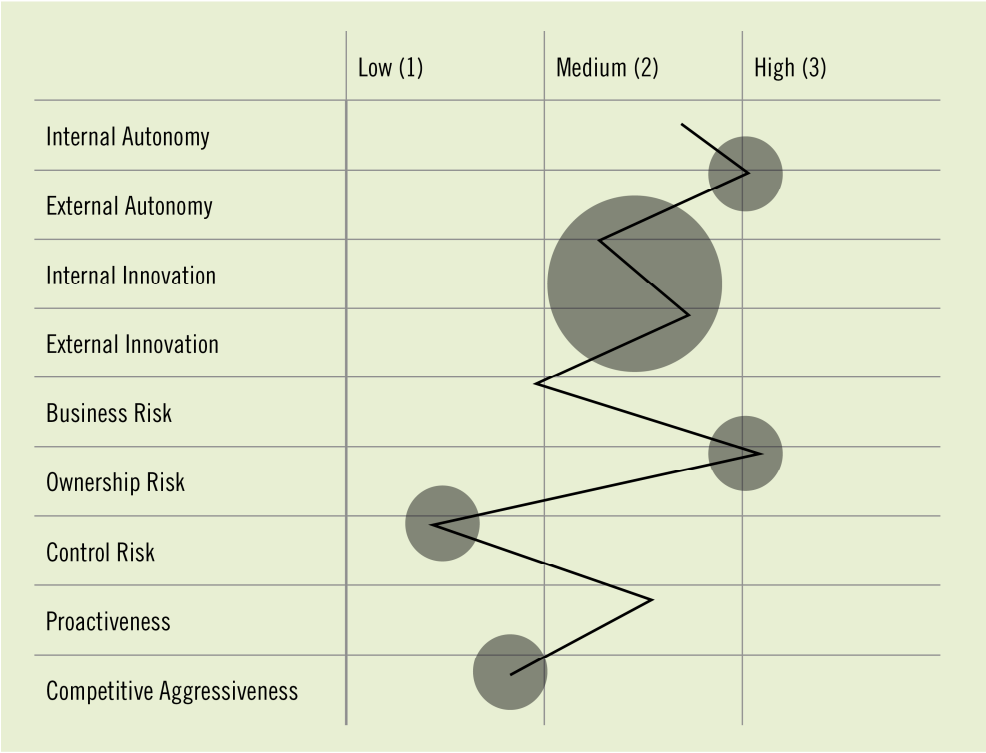
This leads to the question: how much entrepreneurial orientation is needed for long-term success? The more EO the better? Or do we need to draw a more nuanced picture? Put differently: how entrepreneurial in terms of EO are long-living family firms? In Switzerland, we examined three long-established family firms that are described by the following table.

**SWISS FAMILY CASES**

| COMPANY NAME | **Health AG** | **Taste SA** | **Technics AG** |
|---|---|---|---|
| INDUSTRY | Pharmaceuticals | Chocolate Producer | Printing and Filtration |
| EMPLOYEES 2007 (CA.) | 340 | 175 | 2000 |
| COMPANY AGE | 140 years | 80 years | 175 years |
| SALES 2007 (CA.) | 90 million USD | 45 million USD | 200 million USD |
| EXPORT ORIENTATION | 5% of sales | 30% of sales | 75% of sales |
| OWNERSHIP | Completely family owned (2 branches, 51%: 49%) | Owned by the Taste brothers (51%: 49%) | Owned by 150 descendants of the nine founding families and some employees |
| FAMILY INVOLVEMENT | CEO and CFO, members of the supervisory board | The Taste brothers (CEO, Director of Marketing) | CEO and members of the supervisory board |
| FAMILY GENERATION | 5th | 3rd | 7th |
| NO. OF INTERVIEWS | 5 | 4 | 4 |

In these case studies, we found that the EO profiles of these three companies looked quite similar. Supported by findings generated from additional case studies that have been conducted by students in Switzerland, we identify a coherent picture of the EO profile of long-living family firms:

EO PROFILE MAP



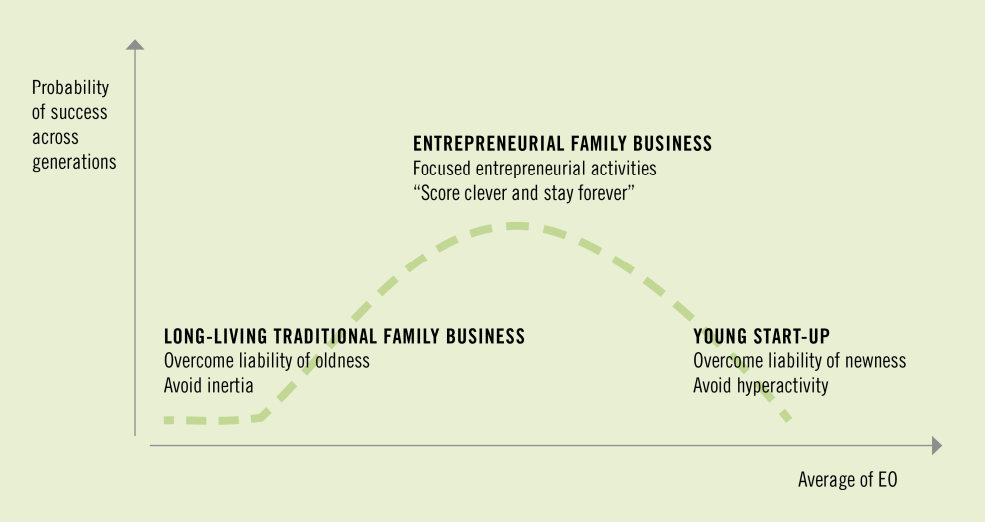

This leads to a number of key insights:

- Our family firms do not "score" very high on all EO dimensions at all times
- Innovation levels are only medium
- Business and control risk are medium to low
- Proactiveness and competitive aggressiveness are medium to low
- In addition, we found that the family firms' EO profiles are not stable over time. Rather, they adapt their entrepreneurial posture to external conditions and to family conditions. For example, phases with low innovation are followed by phases of very high innovation.

After all, this allows us to propose that there might be an optimal average level of EO across time. Too high and EO can be detrimental, as seen in the case of dot.com startup companies ("score high and die"). Too low an EO, on

the other side, may lead to inertia and downturn in the long term ("score low and go"). The key to success seems to be in the middle, with an average EO across time that is dynamically adapted continuously ("score clever and stay forever").

MANAGING EO ACROSS TIME




In sum, STEP research in Switzerland shows that long-lived family firms exhibit a unique pattern of EO. For success across generations, EO needs to be actively managed and adapted to external conditions and family conditions.

### Key Insights in a Nutshell

- The higher the EO the better is not necessarily true.
- Long-living family firms exhibit medium to low scores in some EO dimensions.
- EO needs to be actively and consciously managed and adapted across time.
- The key to success lies in the middle.

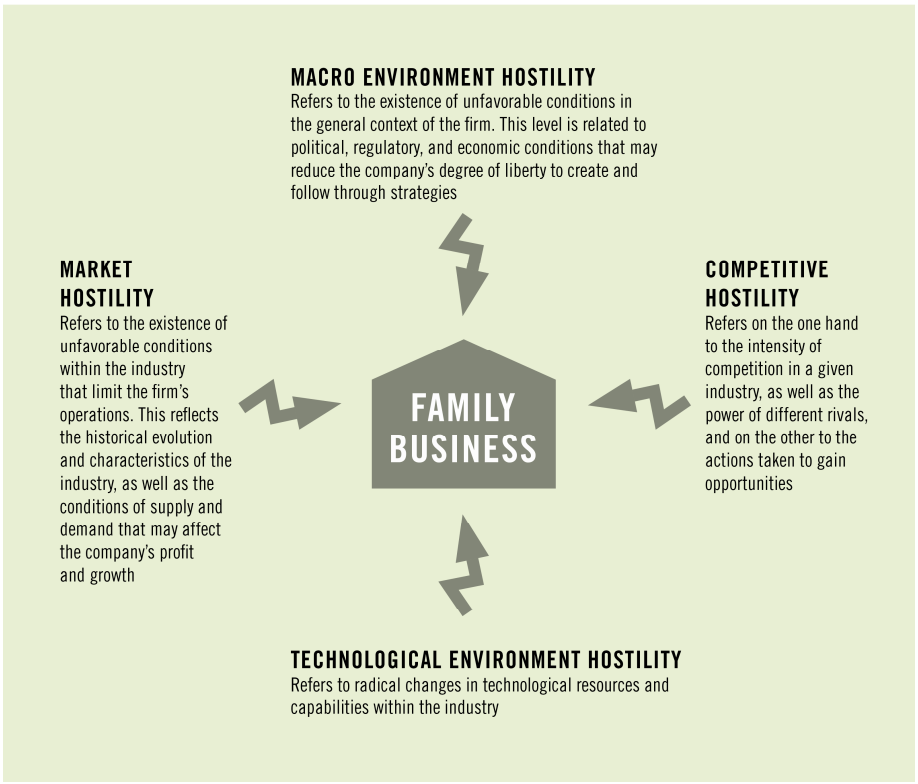
## Venezuela: Entrepreneurial Orientation (EO) and Adaptive Strategies in Hostile Environments

*Aramis Rodriguez and Rebeca Vidal, IESA*

Many scholars agree that the external environment may stimulate entrepreneurial behavior in organizations.[7-8] The uncertainty of the business context in some Latin American countries, and especially in Venezuela, just as the economical, financial, and regulatory volatility causes the private enterprise, whether or not it is family-run, to operate in an adverse environment.

Describing adverse environments has not been an easy task according to the available academic literature, although several authors who have worked on this have selected hostility as the most frequently used dimension to characterize adversity that is external to organizations. Hostility may be characterized in four dimensions[9] : macro, market, competitive, and technological (see Sources of Hostility figure below)

SOURCES OF HOSTILITY

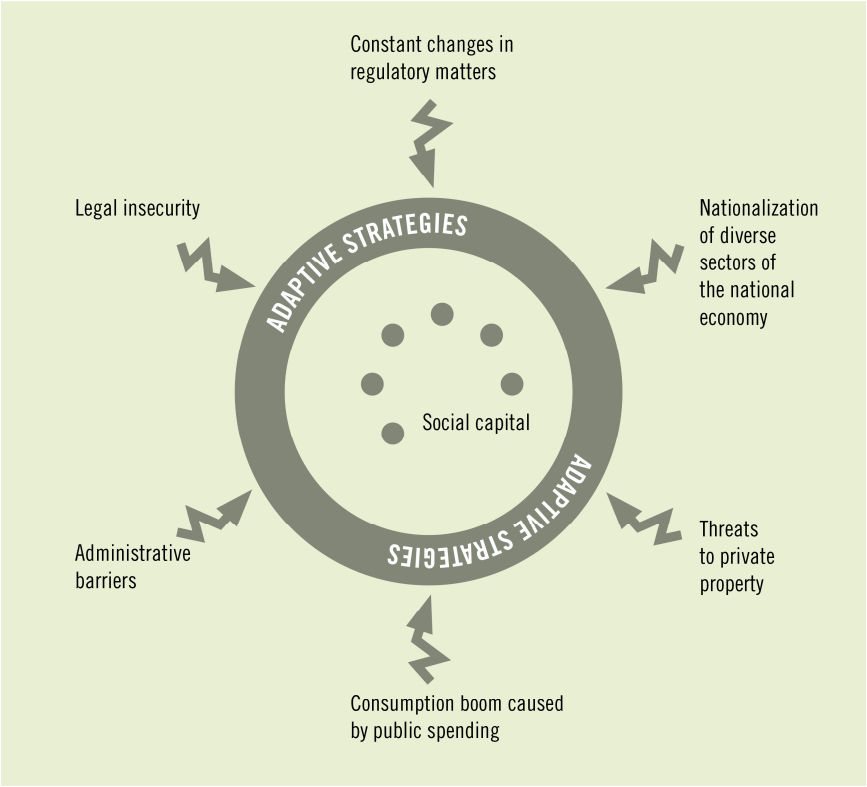


Theoretical propositions and empirical studies say that in hostile environments, a company will be interested in redefining its business and in searching for new lines of action. Researchers have found that there is a positive relationship between a company's hostile environment and its entrepreneurial orientation (EO).[10]

Despite the hostile environment that has affected Venezuelan operating companies in the last 10 years, a fair number have thrived and grown, and some of them have been family-controlled businesses (FCBs). To learn more about how they tackled the hostile environment, we explore the possible relationship between the environment, the family resources, and the EO of Venezuelan family firms. How do family firms develop EO and adaptive strategies when they are exposed to hostile environments?

According to the STEP framework, environmental factors of FCBs can impact their family-influenced resources and their EO, thus influencing their performance and transgenerational potential.

### MANAGING HOSTILITY



Our qualitative and exploratory research suggests that environments marked by political factors that reduce the degree of freedom of organizations[i], stimulate FCBs' resources (familiness) to shape adaptive strategies and to develop EO. Although diverse family resources and capabilities are used to shape the FCBs' adaptive strategies, all of the companies studied used their relationships and networks (social capital) to deal effectively with the threats posed by the macro hostile environment. The studied firms showed the existence of external and internal relations, which have acted as bridging and bonding social capital, and have been used as access to new strategic resources.

We explore the use and impact of social capital using examples from our research cases in the following sections:

**1.** International prestige and reputation have allowed dairy and agribusiness to access international partners and suppliers in times of uncertainty caused by the constant threats of the national government to the private property rights, which have materialized in expropriations and invasions of large numbers of cattle ranches in the country. The resources obtained from external relations (access to global partners, suppliers, and markets) stimulated their EO by being more proactive and by assuming new risk, bypassing the macro environment barrier through a strategy aimed at internationalizing the group's activities in order to diversify risks. This has been done through the creation of a strategic alliance with a few large global dairy companies.

**2.** A photographic wholesaler used its reputation and prestige to access the products and services of a major supplier, a leading Japanese photographic company, when the Venezuelan government put limited access to transactions in foreign currency. The Japanese company understood the problems faced by this company, and ere more flexible in collecting payments and maintaining the supply of products. The wholesaler took advantage of this opportunity by addressing its strategy of gradual reorganization to adapt its commercial system to the new rules, without losing sales.

[i] Analysis carried out for the period 1999-2008.

**3**. When the national government regulated prices for food and other articles qualified as being of first importance, a producer of pasta used its external networks cultivated in the "National Association of Pasta," to access new information to foresee the national government's intentions, which stimulated proactive activities such as the development of new products, new formulas, and anticipated permissions to manufacture new pasta based on corn and rice, ingredients that would not be regulated and would satisfy the executive branch's requirements.

**4.** The internal relations of a chain of supermarkets has acted as bonding social capital to develop adaptive strategies which have constituted a fundamental pillar of success and development, especially in difficult times. During 2000-2008, more than 36 labor regulations were created and the rigor with which they were enforced was increased. As a result, some companies were taken over by their employees; others were affected by strikes or were penalized for not being up to date. To avoid that, one company made use of its committed and motivated employees and addressed its activities toward reinforcing organizational stimulus in order to avoid trade union action. When the photographic wholesaler in No. 2 faced the same environment barrier, it also took advantage of its bonding social capital. In order to reduce the high cost of the new labor regulations, this company offered some of its committed employees the opportunity to become shareholders, incorporating many of its employees as franchisees.

**Key Insights in a Nutshell:**

- Social capital plays an important role in FCBs facing macro hostility.
- Social capital tends to favor access to essential strategic resources.
- Prestige and reputation of the family and the firm, personal networks cultivated by the founder in the past, good relations with international and national consultants, networks cultivated in professional chambers, groups and industries are examples of bridging social capital that allow a FCBs to access national and international new partners, suppliers and/or markets, access to good commercial conditions in difficult moments, access to privileged news and updated market and political trends.
- Good internal relations within the company are an example of bonding social capital that allows FCBs to access committed and motivated employees and owners.
- These essential strategic resources act as forces that modify entrepreneurial behavior, make a firm more innovative, more risk-taking and proactive in a given time.

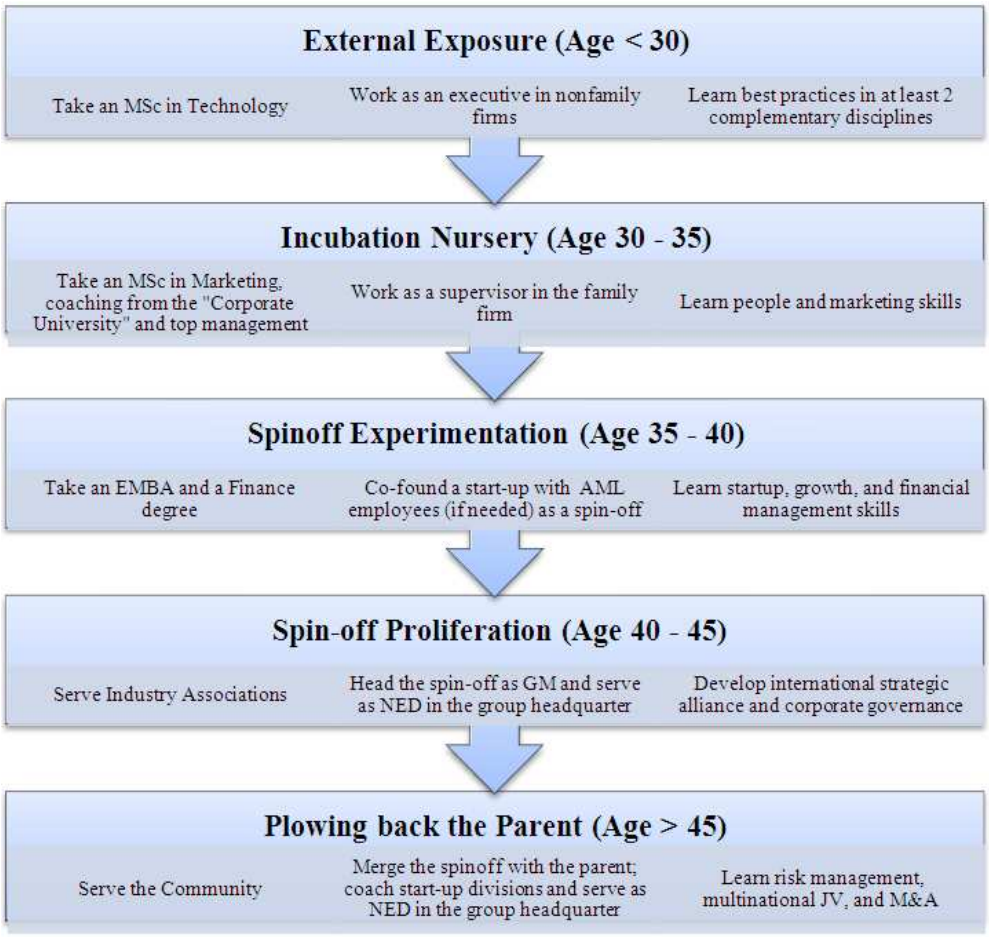
## Hong Kong: Creating "The New" Through Portfolio Entrepreneurship

*Kevin Au and Jeremy Cheng, The Chinese University of Hong Kong*

It is not uncommon that patriarchs find next generations (NextGens) falling behind expectations in continuing the legacy of business families. Meanwhile, NextGens inspiring to grow new businesses under the family umbrella also find it hard to roll out their plans. Family portfolio entrepreneurship, the development of multiple entrepreneurial interests[11], is a way for family businesses to grow and succeed. However, portfolio entrepreneurship does not come easily. While its failure may be attributed to a lack of entrepreneurial orientation (EO) and/or familiness under the STEP framework, it appears that how EO and familiness are transferred to and used in a new family start-up (or "The New" under the STEP research framework) also plays a fundamental role.

Through in-depth case studies, we have identified a potential best practice for incubating family portfolio entrepreneurship. The practice, originated from Automatic Manufacturing Limited (AML), focuses on a transparent spin-off scheme (see Spin-Off Scheme of AML figure below) created by Dr. John Mok, one of AML's founders.[12] The scheme is not a one-off tool to lure NextGens to new ventures. Instead, it is a system supported by a learning culture, a transgenerational leadership development program, a family angel scheme, and professional management. The system strongly articulates the EO and the familiness of the parent group to "The New." The system is sustainable in itself—instead of requiring continuous family input, it reinforces the EO pattern and regenerates resources for the business families (see Spin-Off Scheme of AML figure below)

SPIN-OFF SCHEME OF AML

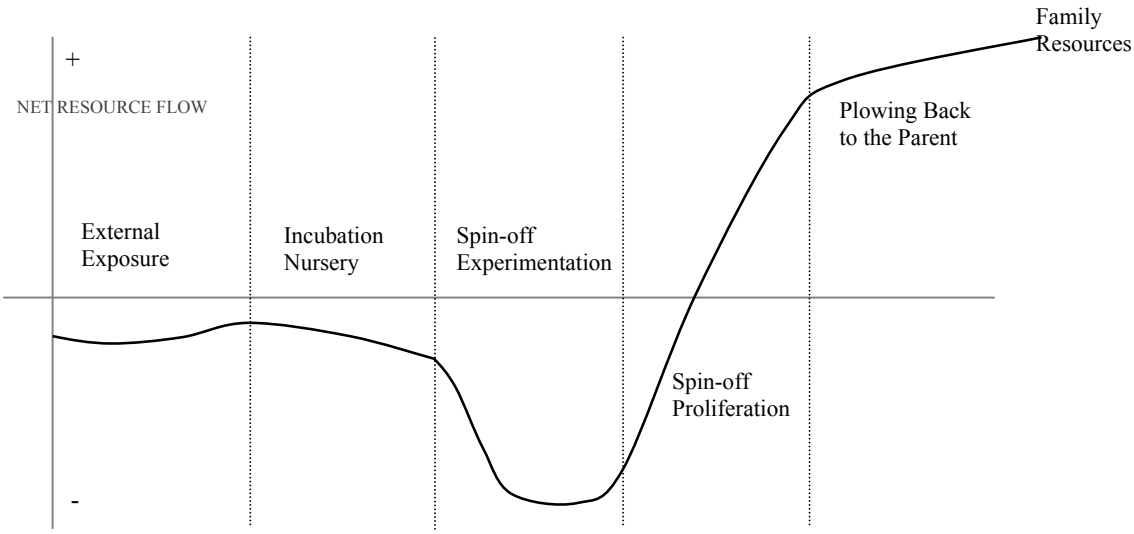



* Note that the education content shall vary with industries of the business families.

Even before the spinoff, the NextGens consume much of the family resources (e.g., the coaching from the top management and the "Corporate University"). NextGens in their mid-30s formulate a business idea in a related but non-competitive area and write a startup plan to the patriarchs (i.e., via the family angel scheme). The startup team may comprise the NextGens and, though not necessarily, former AML employees. Approved plans first receive seed money. If the concept is proven with the seed money, AML provided a more substantial "loan" for the NextGens to spin off a "joint venture" with AML. The new venture must be large enough to challenge the skills of the NextGens and make their time and risk worthwhile. A substantial size of the venture also makes the NextGens concern about the company survival, driving

the NextGens to look for clients themselves. The prudent yet risk-taking nature of the founders is reflected in this tactful consideration of the size of the loan. As the venture is mature, the NextGens shall merge the spinoff with AML in shares exchange. After the merger, the NextGens shall operate their own division as executive directors and at the same time serve on the board of the group as nonexecutive directors (NED) to govern the top management team. The success of the NextGens via this scheme speaks of their competency and commands respect from all family or nonfamily members (and vice versa). In addition, the scheme fully uses EO of the corporate parent and generates a renewable family resource pool.

AN ESTIMATED FLOW OF FAMILY RESOURCES WITH THE SPINOFF SCHEME




We compare the spinoff scheme with other transgenerational entrepreneurship practices observed in other STEP/Hong Kong based cases:

**NON-SPINOFF ENTREPRENEURIAL PRACTICES OF THREE HONG KONG FIRMS COMPARED**

| | | AML | Company A | Ho Tak Kee[ii] |
|---|---|---|---|---|
| INDUSTRY | | Hi-tech integrated manufacturing | Metal trading | Retail, stationery, and printing |
| FAMILY GENERATION | | 2nd | 4th | 3rd |
| FAMILY INVOLVEMENT | | Chairman and CEO and other top management | Chairman, CEO, and supervisors | Vastly family-held and run |
| SIZE (CA.) | | 3,000+ employees | 50+ staff in the corporate headquarter (Lee Kee is listed at the Hong Kong Stock Exchange) | 50+ employees |
| ENTREPRENEURSHIP PRACTICES | | A strategic spinoff scheme | Expansion into a new product market and technical service | Revitalization of the declining printing business |
| TOOLS AND PLATFORMS | FAMILY ANGEL SCHEME | Seed money and strategic loan | Not available | Not available |
| | TRANS-GENERATIONAL LEADERSHIP DEVELOPMENT | Clear educational planning and experiential learning for NextGens | Lacking | Lacking |
| | LEARNING ORGANIZATION | Corporate university | Knowledge management system | Not available |
| | PROFESSIONAL MANAGEMENT | Inclusion of loyal non-family managers | Nonfamily managers; listing status | Lacking |

Company A has an EO in perspective and a rich resource pool. The chairman of Company A listed the firm to provide the incoming generation with a bright career prospect. In particular, he lured his son to give up his professional career to join the family firm. Despite the presence of EO and family resources, his son found expanding into a new business field challenging. Even with the help of a newly installed knowledge management system and firm professionalization, there is still a need to develop a transparent family angel scheme and education opportunities to assist the son in his entrepreneurial aspirations.

[ii] Ho Tak Kee is a fictional name for a real company.

Ho Tak Kee showed an even deeper concern. When limited EO and family resources were present, Mr. John Ho, a third generation member, was requested by his father to save the household name in the printing business. His effort was not supported by the family, his personal development, and by the business itself. A good spin-off scheme might have helped John in doing his job.

**Key Insights in a Nutshell:**

- Growth of EO and familiness requires investment in time and transparent planning.
- Families should devise plans to build renewable resource pool–in terms of leadership, network, capital, relationship, and knowledge.
- Family portfolio entrepreneurship is not a direct product of EO and family resources. It requires a combination of family capital, transgenerational leadership development, learning organization, and professional management.

## Italy: Strategic Business Exit and Entrepreneurial Renewal

*When Should a Family Firm Decide to Divest a Business? And How?*

*Carlo Salvato and Guido Corbetta, Bocconi University*

### Why Is Exit Important but Difficult?

It may seem counterintuitive, but business exit is a vital entrepreneurial activity. To keep abreast of their dynamic industry environments, firms must usually acquire new resources, recombine existing ones, and start new entrepreneurial ventures. Yet, shifting environmental conditions and strategic mistakes may turn once successful product lines, units, or entire businesses into relatively unprofitable, if not failing, business entities. Keeping these entities into a firm's portfolio means reducing resources available to the healthier and promising ones, and loading the entire organization with a disturbing administrative, organizational and psychological burden.

Failure usually sets change in motion. Firms tend to abandon failing courses of action when performance is negative or below their aspirations. Not always, however. A number of organizational and psychological factors may determine an *escalation of commitment* to a failing course of action. These factors are common to any type of organization, public or private, large or small. Yet, the evidence we collected through the STEP project, and discussions with entrepreneurial families at STEP Summits, highlight the presence of specific family-related psychological and relational factors that influence commitment escalation.

### DETERMINANTS OF ESCALATION OF COMMITMENT

| DETERMINANTS OF COMMITMENT TO FAILING COURSES OF ACTION IN ALL FIRMS | SPECIFIC ***FAMILY-RELATED*** FACTORS INFLUENCING COMMITMENT ESCALATION |
|---|---|
| **History of success**: past success can be confused with invulnerability, precipitating inaction, leading to failure. | **Long-term family involvement** increases the perception of "invulnerability," "being in control," and the resulting so-called "deaf effect": negative trends are seen as temporary and manageable |
| **Illusion of control**: a strong feeling of control engenders overly optimistic reactions to negative trends | |
| **Sunk costs**: the feeling that "we have invested too much to quit" may prompt managers to "throw good money after bad." | **The amount of efforts—**time, energy and financial resources—invested by the controlling family over time increases the feeling of "having invested too much to quit" |
| **Organizational inertia**: firms tend to be locked into their policies so that current courses of action appear hard to change | **Family conflicts** increase organizational blockages and obstacles to open communication |
| **Internal communication**: lack of open discussion and consensus-building holds up alternative courses of action | |
| **Emotional attachment**: deep feelings of key managers toward the business entity hinder objective strategic analysis | **The identification of the family with the business** sharply increases psychological ownership and emotional attachment |

For these reasons, exit from a losing course of strategic action is a particularly difficult endeavor for family firms. There is considerable evidence in the STEP project that family firm managers are reluctant to de-commit even to a losing course of action. Yet, several STEP family firms had significant exit and divestment experiences. Some common reasons to divest or sell emerge from our analysis of STEP cases:

- Negative industry trends
- Negative business results
- Lack of coherence with the other businesses in the family portfolio
- Perceived need to focus managerial attention on a limited number of core businesses
- Opportunity to sell a well running business at a profit

An absolute negative financial or competitive performance is, hence, not always a determinant of the decision to sell. Sometimes businesses that are profitable in absolute terms are divested. The decision to divest is hence based on:

- The performance of the business relative to aspirations set by the controlling family for the business
- Opportunity costs

Common to all these experiences are the psychological and emotional difficulties in de-committing from activities that have been part of the family entrepreneurial portfolio. These psychological difficulties—and, hence, obstacles to exit—are present regardless of performance of the divested activity (negative or, sometimes, positive), and regardless of years the family firm has been involved in the divested business.

**How can exit be performed?**

How can "emotional" obstacles to de-commitment be managed? A suggestion emerging from the STEP project is to *systematically assess opportunities for selling assets and businesses, as a regular exercise within the strategic management process*. Strategy is a conversation that needs to be practiced. This means answering the following questions on a regular basis, during formal strategic assessments that may be performed with support from external professionals:

- Do we feel that some of our activities or assets (products or product lines, entire businesses, technologies, organizational entities, etc.) are not essential to the success of our family firm, or that they are (relatively) unproductive?
- Do we feel that eliminating these activities may release resources for more profitable uses?
- What are the main obstacles to the elimination of these activities? Who (or what) is against eliminating them?

- Are these obstacles mainly related to the family? Are there different perspectives within the family firm about the need to get rid of unproductive assets or activities?
- What practical decisions and actions should we take to avoid the obstacles to the elimination of (relatively) unproductive activities? Who should take these actions?

All these are tough questions to answer, but often even to be asked. In practice, who can be in the position to ask these questions within a family firm, in a way that can trigger the substantial and, at times, painful answers and actions triggered by these questions?

A successful STEP case of exit from the founder's business, and entry into a promising new entrepreneurial venture is the *SteelCo Group*, controlled by the *Irons* family, an example of a family firm that went through phases of stability and change over a long time span. Established in 1906 as a steel company, and currently a 4th generation family firm, the *SteelCo Group* ascended to become a leading steel producer in its country. The firm suffered almost continuous losses in the 1970s and 1980s leading to a decision to exit from the steel industry in the 1990s, followed by successful entry into the renewable energy business.

Three factors allowed the *SteelCo Group* to successfully realize the need for exit from the founder's steel business and successfully implement it:

1. *Designating a rejuvenation champion and facilitating "family exit"*: a member of the young generation gradually emerged, and was identified by the controlling family, as the most suitable to facilitate a shared understanding of the choices that needed to be taken, and to facilitate exit from ownership and management of dissenting family members.
2. *Partially transferring power to nonfamily, external executives*: an external CEO with experience in business restructuring outside the steel business was hired; he provided an objective assessment of the financial and competitive situation of the steel business, free from the emotional load that had been characterizing the conflicting assessments provided by family members.

3. *Extending entrepreneurial exploration*: the controlling family gradually probed new businesses by pursuing entrepreneurial opportunities in related businesses; eventually, renewable energy was identified as the most suitable to leverage the huge potential of financial resources and business competences that were left after exit from the original business.

**Key Insights in a Nutshell:**

- De-escalation strategies are essential to sustaining competitive advantage across generations in family firms; divestment enables business renewal and frees up resources for the identification and exploitation of new opportunities.
- De-escalation strategies specific to family firms can be devised, provided family members are aware of the possibility of business exit when firm results do not meet the controlling family's aspirations.
- De-escalation strategies revolve around:
    a. Designating a family "rejuvenation champion" and facilitating exit of dissenting family members
    b. Partially transferring power to non-family external executives
    c. Extending entrepreneurial exploration to new business areas
- De-escalation is not failure; it is an intended strategic choice that must be practiced, a real investment decision aimed at improving performance.

## Central America: Antecedents to Long-term Success of Family Enterprises

*The Role of Environmental Circumstances, Entrepreneurship, Family Values, and Professionalization*

*Francisco Leguizamón and John C. Ickis, INCAE*

The myth of shirt-sleeves to shirt-sleeves in just three generations is found in many languages and cultures.[13] However, in two cases developed by the INCAE faculty—the Grupo Pantaleón in Guatemala and the Grupo San Nicolás in El Salvador—a more virtuous cycle has been documented using the STEP research model: the transference of entrepreneurial attitudes and family values from one generation to the next, leading to the professionalization of family members individually and the firm collectively.

### External Environment

The surrounding environment, a key element of the STEP model, decisively influenced both family business groups. The Grupo Pantaleón, founded as a diversified agricultural enterprise in 1849 by Manuel María Herrera, lived with crisis during the 30-year Guatemalan civil war, which culminated in a series of strikes and an invasion of company lands by the army in the 1970s, followed by a social change process led by a fifth-generation family member, Julio Herrera. The Grupo San Nicolás, founded in 1965 with the opening of the Silhy family´s first drugstore in San Salvador, also suffered the effects of a lengthy civil war that placed family members at daily risk. Throughout these turbulent times, punctuated by a devastating earthquake that left much of the plant in ruins, founder Victor Silhy steered the company away from economic disaster, seeking new markets and converting crisis into opportunity.

In 2011, amid pessimism about prospects for the world economy, the Pantaleón and San Nicolás business groups are both in a phase of rapid business growth and technological development in their respective industries, sugar production and the manufacturing of pharmaceuticals. They have accomplished this in countries that are no longer embroiled in civil war, but where violence is still an everyday reality.

**Entrepreneurial Capacity and Founder Legacy**

The entrepreneurial capacity of the founders was a key element in the success of both business groups. When Manuel María Herrera founded the Pantaleón farms near Antigua, Guatemala, in 1849, his original intent was to produce indigo, but the price fell and he faced bankruptcy. It was through perseverance that he brought the farms back to prosperity with cattle and sugar cane. In 1860, he acquired two additional farms, diversified into coffee, winning the Medal of High Quality of coffee in 1878. By that time the Pantaleón farm, named after the patron saint of Catholic doctors, had grown to 54 caballerías (a unit of measurement similar to hectares).

The founder, Manuel María Herrera, remained in control as owner and president of the *Sociedad Herrera y Compañía* until 1880, when he traveled to Europe and left legal powers over the company to Francisco Herrera Moreno and Luna, his first-born children from each of his two marriages. Following Don Manuel María's death in 1895, he was succeeded by his oldest son Carlos Rafael Herrera, who turned it over to his son, Carlos Herrera Dorión, in 1923. The entrepreneurship of the company founder was not to return to Pantaleón until 1973 when Julio Herrera, the nephew of the 83-year old president, was finally allowed to take over. Educated in the U.S. and having prepared for a career as a New York banker, Julio Herrera returned to Guatemala when his mother fell ill and once there, discovered that the family business was in decline. At first his cousins rejected Julio's offers of assistance so he became involved in other ventures, starting a tire retread business and opening a Hertz rental agency. In 1973 his uncle, then 83 and having run the business for 50 years, agreed that it was time for a change, and Julio had demonstrated his entrepreneurial skills, so he was allowed to take over as president.

Julio Herrera began by increasing productivity and expanding plant capacity at a time of low international prices, when other sugar mills were cutting back. By gaining scale economies, he was able to achieve cost leadership, allowing Pantaleón to compete when world prices were low and to reap windfalls when prices rose. This greater volume also facilitated selling direct to end users, providing them with the specific starch content or color that they requested. Differentiation also was achieved through the development of value added products such as candies in alliance with a Colombian business group, with whom together with a Brazilian partner he set up an ethanol plant in Sao Paulo.

His objective, as always, was to best practices. Other areas of innovation were in labor relations, where he broke with industry tradition to hire workers directly and provide them with extensive health benefits; and social action, for which Pantaleón has become well known in and outside of Guatemala.

The founder of the Grupo San Nicolás, in contrast to the fifth-generation leadership in Pantaleón, was still at the helm of the family business after 46six years. From the opening of the first drugstore through the expansion to achieve nationwide coverage, incursion in regional markets, the vertical integration into pharmaceuticals manufacture, and the negotiation of the first representation of European brands in El Salvador, the success of the business may be traced to the entrepreneurial skills of Victor Silhy in overcoming the barriers of a hostile environment, outperforming rivals, and gaining employee commitment. His leadership, however, has gradually been shifting, as his wife Gloria took charge of the company's beauty products and his daughter Glorybell helped professionalize the group through human resource practices that won the company America Economía's title of best mid-size employer in Latin America in 2006.

**Family Values**

Family values constitute another key element in both the Pantaleón and San Nicolás groups. In Pantaleón these values are ethics and honesty, austerity, and responsibility to the society. The value of business ethics was important in building the Pantaleón reputation. For family members, ethics means, in the words of one company executive, *"respect for all the stakeholders…the feeling that they become part of the company family. It means integrity, being able to make decisions that go against the economics."* Ethics and honesty have paid off for Pantaleón in relations with its many business partners. Austerity, a second value, means avoiding ostentation. There is a strong family tradition of being discrete and maintaining a low profile. The value of social responsibility had long existed in Pantaleón, because as an agricultural company it was in touch with the rural realities of Guatemala. This was strengthened through the experience of the 1976 earthquake, in which the company launched an effort to rebuild a Quiché village, an experience which resulted in the creation of the Pantaleón Foundation. These values of honesty, austerity, and social responsibility have created a culture is a positive resource for entrepreneurship.

"The culture encourages projects to come from the bottom up," commented one field supervisor.

In the Grupo San Nicolás, values of solidarity, expressed in terms of justice, honesty, and dignity for a work environment that is characterized by frank and easygoing relationships among coworkers, has permeated the second generation. Living in this environment from day to day has created an exceptional level of commitment among employees. Given that these elements of the San Nicolás culture have begun to take root among the next generation, it is quite probable that when the moment of succession comes, the culture will have been infused in the third-generation leadership of the group. The expectation is that by providing educational opportunity and above all, an example to future generations, each and every member of the Silhy family achieves both material and spiritual fulfillment while nurturing mutual respect, support, trust, and love. Family values, then, have been critical to the entrepreneurial performance of the Grupo San Nicolás and its contribution to the development of El Salvador.

**The Growth Challenge: Adapting with Increased Complexity**

The most difficult challenge facing most family business owners is that of adapting their managerial styles to the needs of larger and more complex enterprises.[14] In both Pantaleón and San Nicolás, this challenge never arose because the owner-entrepreneurs in both cases, Julio Herrera and Victor Silhy, were conscious of the need to professionalize their respective companies. Soon after Don Julio inherited the business from his uncle in 1973, he set about hiring teams of professionals for key management positions, thus developing a culture of high performance. There were no "glass ceilings" for outsiders because Don Julio instituted a policy prohibiting family members from holding executive positions. The professionalization of Pantaleón extended upward to the board where family members competed on merit for membership, and to field operations where the best engineers from Colombia, Brazil, and Australia were brought in to share best practices that could be adapted to the company´s cane fields and sugar mills. As a result, worker productivity rose from 1.5 tons to 8 tons per day through such innovations as the introduction of the Australian machete and the mechanization of loading operations.

The leadership in Grupo San Nicolás also gives top priority to recruiting professionals for all managerial positions, but unlike Pantaleón, there is no

policy excluding family members from these positions. Under equal conditions they are given preference, as long as they possess the appropriate academic degrees and have gained the practical experience required by the job, including one or two years working in another company with no ties to San Nicolás. As in Pantaleón, family members are also groomed to occupy seats on the board of directors or in the family council. All appointments of family members must be proposed by a delegate of the family council and approved by the board of directors, with the favorable opinion of the family council.

**Preparing for Transition**

Both families find themselves at a point of transition, from one generation to the next. Julio Herrera recently stepped down as CEO and chairman of the sugar group, though at the time of the case (October 2007) he remained board chairman of the holding company. After 158 years of successive family leadership, there was some speculation in the Guatemalan business community as to whether the next president would be a family member. *"I no longer do much,"* said Mr. Herrera, modestly. *"I´m coordinating, supporting, thinking, but there are a lot of connections that I have and I'm trying to get people to take over those relationships."*

The Silhy family was also preparing for transition. In 2009, its members prepared a family protocol that established, among other things, the process by which family members in managerial positions would be groomed for positions on the board of directors or on the family council. The third generation has begun to participate actively in management and its members have begun to build their credibility through solid performance. The founder´s son, Victor Miguel Silhy, has begun to preside over meetings at company headquarters. These interventions have earned him the respect of company employees, and it is becoming evident that he will succeed his father as leader of the group. Two other members of the second generation, Glorybell and Marisol, have the academic preparation and managerial experience to accompany their brother in leading the company.

The examples provided by these and other cases developed by INCAE in Central America as part of the STEP Project tend to corroborate studies conducted in other parts of the world, including the IMD-Lombard Odier Darier Hentsh Center for Research on Family Enterprise in Europe, that family-owned

firms are among the best performing companies. Moreover, these cases provide insights on the reasons for family business success. The combination of entrepreneurship and familiness produces a degree of innovation and commitment that is difficult for the public corporation to compete with.

The relationship found among the critical performance factors in a family business (using the STEP framework) and the effect that these factors have had in the trajectory of each business, from which we may anticipate success in the transition to the next generation, may be seen schematically in the following table:

**EFFECT OF FOUR FACTORS IN THE TRAJECTORY OF THE BUSINESSES**

| CRITICAL FACTORS IN THE TRAJECTORY OF THE FAMILY GROUP | **Grupo Pantaleón** | **Grupo San Nicolás** | **Effect upon the performance of the group** |
|---|---|---|---|
| EXTERNAL ENVIRONMENT | Civil war<br>Land invasions<br>Earthquake | Civil war<br>Land invasions<br>Earthquake | Ability to manage uncertainty for survival |
| MANAGERIAL AND ENTREPRENEURIAL CAPACITY | Visualization of opportunities<br>Managerial ability<br>Ability to focus on global issues | Visualization of opportunities<br>Ability to negotiate and to form alliances | Local growth, regional expansion, forward or backward integration |
| FAMILY VALUES | Ethics<br>Honesty<br>Austerity<br>Social responsibility | Solidarity<br>Justice<br>Honesty<br>Dignity | Internal stability<br>Recognition and stability |
| COMPETITIVE ISSUES | Installed capacity<br>Productivity<br>Modernization<br>Technology<br>Prices/quotas | Productive capacity<br>Commercialization<br>Prices<br>Regulations | Professionalization in areas associated with the nature of the business |
| TRANSITION TO THE NEXT GENERATION | Discussion of ideas, projects | Participation in management<br>Training inside and outside the company | Development of formal agreements, protocols |

**Key Insights in a Nutshell**

- Uncertain environments provide instability but also create opportunities and offer valuable lessons on how to manage ambiguity.
- The entrepreneurial drive of the founder can be a tremendous asset to a family firm, not only for its growth, but also as a legacy for the generations to come.
- Family values can be a driving force for a cohesive family unit and a common vision for the firm.
- Education and personal professional development of next generation members is critical to the long term success of the family firm.
- Transition to the next generation is a gradual process, which should be undertaken intentionally and with open communication of both generations.

## Sweden: Dialogues Fostering Transgenerational Entrepreneurship

*Ethel Brundin, Leif Melin, and Mattias Nordqvist, Jönköping International Business School*

The aim of the Global STEP project is to understand how business families can identify and sustain practices that help them to act entrepreneurially and grow their business or businesses across generations. The STEP framework includes many important aspects with regard to this process, such as specific resources and attitudes. One feature that is not explicitly visible in the STEP framework, but certainly crucial for transgenerational entrepreneurship is the communication both within the business family and between family and nonfamily members. In fact, we suggest that establishing an open and ongoing communication between actors is one of the most important factors for a business family to sustain and develop their business activities across generations. In our view, communication is about facilitating the creation of trustful and constructive dialogues between two or more people. Findings from our STEP cases show that these dialogues should be understood as a crucial for the transfer and transformation of entrepreneurial capabilities and mindsets over generation, that is, transgenerational entrepreneurship.

Our understanding of dialogue goes back to Socrates, who suggested that knowledge and understanding is created in the social interaction between two or more people. Tsoukas[15] argues that new knowledge in organizations is created through direct social interaction with a dialogical character. For a true dialogue to be created involved, actors must be willing to listen to each other and share information so that new, shared understanding is developed and accepted by the parties involved. A good dialogue calls for all our senses and curiosity in really wanting to discover something new and to influence the course of events. It further demands attentiveness in order to avoid the dialogue to be blocked by hidden agendas, power struggles, or passivity. At its best, the dialogue is authentic in the sense that it holds a genuine and mutual commitment where the outcome is not predetermined. However, good dialogues are not free from emotions, tensions, and conflicts. Some degree of disagreement can be positive and the outcome does not necessarily imply complete consensus, so a dialogue may mean that reasons for conflict are put in focus in respectful conversation,

involving a lot of emotional energy and the display of a mix of different emotions. Good dialogues may also be creative, fostering new ideas and leading to innovation, which is of importance in the context of entrepreneurial activities across generations.

Building on the conceptualization of entrepreneurship as a firm-level phenomenon proposed by Miller (1983), entrepreneurial orientation (EO) has become an accepted construct to address the *processes, practices, attitudes, and actions* that make a business firm entrepreneurial.[16] We want to extend this view on EO by adding *dialogue* to the important practices that make an organization entrepreneurial, in other words to bring strategic dialogues into the context of family businesses with specific attention to the EO of the business family. The main argument is that ongoing strategic dialogue among family members is a clue for family businesses to transfer and transform EO over generations. Constructive strategic dialogues are presumed to eventually result in strategic actions.

The dialogue within an enterprising family may take place at a range of arenas, both formalized such as the board room and more informal such as the office, the hallways, cars, airplanes, luncheon room[17] [18] [19]—in short, all those places where people meet and start a social interaction by taking part in a dialogue. The enterprising family as a unit has potential advantages when it comes to meet the criteria for a dialogue. The dialogue in a family business is embedded in a family context with its own values and norms that may both facilitate and constrain the progress of dialogue.[20]

An example both of informal arenas where strategic dialogues may take place and of the enterprising family as a fruitful context for dialogues is the following illustration. One son and his father, the CEO of a medium-sized family firm, are going to China on a business trip and brings the second son for the first time:

> *"We will show him how it works in China, but then we all go to Hong Kong together for three days, shopping in the Hong Kong shopping malls ... and then during lunches and dinners we will eat on good restaurants and discuss business and the company's future which will end up in an ongoing discussion during the rest of the trip."*

A dialogue where strategic issues related to EO are on the agenda has become an important topic among the father and the sons of this company. There is absolutely no need for agreement, the father says, it is more important that they can put forward their case.

Family members can move freely between formal and informal arenas and keep the flow going about strategic issues. This possibility is a key to reproduce EO over generations. Vivid and dense strategic dialogues can build up successive knowledge and understanding for both generations involved. The dialogues create necessary conditions to foster the transfer and possible transformation of the entrepreneurial orientation of the firm.

However, the strategic dialogue does not always support the continuation of EO. The father in the company above admits that the dialogues sometimes may be too harsh and that he sometimes does not bother about what the sons think and want, e.g. that they want to discuss and get agreement on a plan of how and when to hand over the ownership and management. But he does not see that need in the near future as he cannot see himself letting go as long as he is successfully running the business. This means that the succession oriented dialogue between the father and his two sons has been limited for a period resulting in frustration among the sons.

In another case company, entrepreneurship is a main theme in all company artifacts such as the website, and brochures. The dialogue to sustain EO is also evident in the daily practice, where especially the founder (and former CEO) is keeping this dialogue on entrepreneurship going in both the family and the business. He interacts and talks to people extensively and a board member says the founder *"talks about entrepreneurship all the time,"* while his son, who serves on the board and as middle manager, gives his view:

> *"He tries to get the novel thinking going in the organization; he tries to get people to be a bit more open. He participates in discussions, takes part in sales and market meetings, and tries to open eyes on everyone not thinking too narrowly."*

In this company a conflict emerged between the family and the non-family CEO. The family thought the CEO introduced changes in organizational systems and processes, perceived by family members as counteracting the

entrepreneurial spirit of the company. Interestingly, the CEO commented the dialogue with the owner family as follows:

> *"We know what we need to do. It is clear from the board. It is a bit less clear what the family wants. One thing that can be improved is the communication between the family and the management. Today the communication is mainly family/board and board/management."*

This illustrates the situation in many family firms where a nonfamily CEO may be disadvantaged when excluded from family members' internal dialogues, both from formal arenas, as the family council, and informal arenas, as family gatherings. The family council has become established in this enterprising family as the main arena for their strategic dialogue. Norms of openness, honesty and informality characterize the dialogue on this arena, even if some family members also say that what they talk about and conclude in this arena is not always put in practice in subsequent actions.

Even if there may be disadvantages of closed family dialogues, the density of a family is a strategic advantage in transferring and transforming EO over generations. The functional family is a lifetime dialogue where the attitude and skills toward dialoguing are founded. Dialogues contribute to share understanding, where the strategic dialogue shapes arguments, interpretations and eventually transgenerational action. We argue that the family business setting with family members in the management team constitutes an especially well-equipped breeding ground for authentic dialogues. To be part of a family business renders special feelings of belonging,[21] [22] where we should thus find good conditions for joint responsibility for the family firm embedded not only in shared values and genuine relations but also a joint language.

To conclude, we claim that well performed strategic dialogues are a strong tool in the family business context for developing strategic learning, growth, and change, i.e. transgenerational entrepreneurial orientation. The strategic dialogue in itself might even be the medium through which transgenerational entrepreneurship is made possible.

**Key Insights in a Nutshell**

- Establishing an open and ongoing communication between actors is one of the most important factors for a family business.
- Communication in family business is crucial for the transfer and transformation of entrepreneurial capabilities and mindsets over generation, which, in other words, is transgenerational entrepreneurship.
- Creation of new knowledge in organizations is fostered by direct social interaction of a dialogical character.
- Constructive strategic dialogues are presumed to eventually result in strategic actions.
- The dialogue in a family business is embedded in a family context with its own values and norms that may both facilitate and constrain the progress of dialogue.
- It may be worthwhile to include nonfamily employees in the abovementioned strategic dialogues.

# Resources and Familiness

## Malaysia: Family-influenced Resource Pools (Familiness) and Entrepreneurial Performance

*Leilanie Mohd Nor, Mohar Yusof, Siri Roland Xavier, Dewi Amat Sapuan, Universiti Tun Abdul Razak*

One of the goals of the STEP research is to determine how the family influences entrepreneurial outcomes. Habbershon and Williams[23] suggested that an appropriate method for doing that is to assess the family's influence on the resources of an organization, and the term "familiness" was coined. Using the Resource Based View (RBV) as theoretical lens, the STEP framework is based on eight "resource pools": leadership, culture, networks, financial capital, relationships, decision-making, knowledge and governance. Entrepreneurial performance outcomes include "the new" on the financial, entrepreneurial and social performance constructs. The corporate entrepreneurship literature describes entrepreneurial performance as (i) new venture creation, (ii) innovation, and (iii) renewal, with (iv) the ensuing financial growth and (v) socioeconomic contributions.[24]

Each of the resources mentioned above can have an "f" factor attached to it as a way to determine family influence. If the influence is positive, it is "f+," if the influence is negative it is "f-," and if the influence is neutral or unable to be ascertained, it is "f0." Hence, "familiness resource pools" are identified by qualifying and describing the family influence on each of the resource pools/categories.

In Malaysia, two successful family firms that met the STEP research criteria were examined. They are described in the Malaysian Cases overview table below.

### MALAYSIAN CASES OVERVIEW

| COMPANY NAME | Gumi Asli | Karangkraf |
|---|---|---|
| INDUSTRY | Mechanical and Electrical Engineering | Media, Entertainment, and Publishing |
| REVENUES (2009) | RM 150 million | RM 372 million |
| OWNERSHIP | 85% owned by the family | 100% owned by the family |
| FAMILY INVOLVEMENT | Directors, CEO, Deputy GM | Directors, CEO, division heads, middle management |
| FAMILY GENERATION | 2nd | 2nd |
| NO. OF INTERVIEWS | 5 | 7 |

After investigating and describing the family influence on each of the resource pools in these two case studies, we found several similarities as well as differences. The Family Influence on Resources table below shows the results of the study on familiness and resource pools.

### THE FAMILY INFLUENCE ON RESOURCES

| COMPANY NAME | Gumi Asli | | | Karangkraf | | |
|---|---|---|---|---|---|---|
| FAMILINESS AND RESOURCE POOLS | Past | Present | Future | Past | Present | Future |
| LEADERSHIP | f+ | f+ | f+ | f+ | f+ | f+ |
| CULTURE | f+ | f+ | f+ | f+ | f+ | f+ |
| NETWORKS | f+ | f+ | f+ | f0 | f0 | f0 |
| FINANCIAL CAPITAL | f- | f+ | f+ | f+ | f+ | f+ |
| RELATIONSHIPS | f+ | f+ | f0 | f+ | f+ | f+ |
| DECISION MAKING | f+ | f+ | f0 | f+ | f+ | f+ |
| KNOWLEDGE | f+ | f+ | f0 | f+ | f+ | f+ |
| GOVERNANCE | f+ | f+ | f0 | f+ | f+ | f0 |

This leads to several insights:

- Family influence seems to be strong for leadership and culture in these two family firms. This is because the founders of these two firms have set a strong foundation in terms of family leadership and ownership control. In addition, values and principles advocated by the founders are embraced, upheld and continued.
- Key differences exist in terms of the family's influence on networks. In the case of Gumi Asli, networks play a critical role in attaining projects whereas Karangkraf has developed its own competencies and capabilities across the supply chain of its businesses, thereby being independent of networks.
- In both firms, the family gradually builds its financial capital over time through prudent management of resources.
- While Karangkraf has developed its management succession plan, Gumi Asli needs some work in this area to ensure future sustainability of the firm.
- Both firms need to develop its family governance and ownership succession plan.

Here, we would also like to highlight the performance outcomes of both family firms. In the case of Gumi Asli, the performance outcomes are as follows:

## PERFORMANCE OUTCOMES OF GUMI ASLI

| COMPANY NAME | **Gumi Asli** |
|---|---|
| ENTREPRENEURIAL PERFORMANCE | • Process innovation (ISO, GPS, green vehicles, maintenance rounding monitoring system).<br>• When they first started, they were installing socket boxes and lighting arresters worth only RM30K for telecommunication companies. Today, it has achieved projects worth more than RM 100 million.<br>• In the beginning it was a sub-contractor with no license. Today, it is classified as a G7 contractor, and holds many other licenses.<br>• Present focus area: Oil and gas sector for electrical works and supplies, and mechanical and electrical facilities management and maintenance for buildings. |
| FINANCIAL PERFORMANCE | Medium and has room to grow. Projected revenue for 2010 is Rm 175 million. |
| SOCIAL PERFORMANCE | Believes in giving and educating their relatives and staffs, job opportunities to the immediate community.<br>*"In business, my father had always stressed to me two things, the first is, the staff's salary must always be paid on time, and it must be paid to the staff because the staffs have worked for us. And secondly, always pay the suppliers, even if you don't have enough money, you must pay your suppliers bit by bit, monthly"* (Adi, founder's youngest son) |

On the other hand, the performance outcomes of Karangkraf are as follows:

**PERFORMANCE OUTCOMES OF KARANGKRAF**

| COMPANY NAME | **Karangkraf** |
|---|---|
| ENTREPRENEURIAL PERFORMANCE | 1. Printing businesses generate highest income (services internal divisions and growing external clients).<br>2. During the 2009 slower economic pace, the group embarked into the publishing and newspaper business which is set forth to be another earning driver to the group in the future. |
| FINANCIAL PERFORMANCE | • Gross profit during the last three years ranges between 13% -15%.<br>• Revenue in 2009 was RM 372 million, projected revenue for 2010 is Rm 400 million (printing arm contributes less than 50% of total revenues).<br>• Takes on proactive steps to focus on effective management of costs and improve productivity leading to lowering the overall operational costs. |
| SOCIAL PERFORMANCE | Embarked on five "Peduli" (care) projects which include helping the poor and unfortunate, preserving the environment, promoting the solidarity of the society, fighting corruption and inculcating reading culture via lifelong learning. |

In sum, the case studies show that there is a relationship between familiness and performance outcomes and in the context of these two family firms, we found that family leadership and culture are strong and consistent across two generations and became key factors driving the performance of these firms.

**Key Insights in a Nutshell:**

- Family leadership and culture are key factors for sustainability.
- Areas of family governance and ownership succession plan require attention and improvement.
- Family firms exhibiting strong family values and culture are actively involved in corporate social responsibility programs and activities.

## Ireland: Social Capital and Transgenerational Success

*Eric Clinton and Frank Roche, University College Dublin*

One of the foundational constructs of the STEP research framework is the resource-based view of the firm (RBV).[25] We focus on identifying distinct resources within the family business, which can be a source of competitive advantage or alternatively a source of disadvantage. Notable resources include deep explicit and tacit knowledge, access to human resources, experienced managers, unique buildings and locations, access to financial capital, long-term financial outlook, an established network, and a credible reputation. Applying the RBV in the family context, Habbershon and Williams[26] first introduced the term "familiness," describing it as *"... the idiosyncratic firm level bundle of resources and capabilities resulting from the systems interactions."*[27] Chrisman, Chua, and Litz[28] later described the familiness construct as *"... resources and capabilities related to family involvement and interactions"* (p. 468). Both definitions propose that the family business system creates resources and or has an influence on resources in a way that makes them valuable, rare and highly inimitable by competitor. Familiness has been linked with both economic outcomes, including competitive advantage and wealth creation, as well as noneconomic performance outcomes including the preservation of tradition, strengthening of family ties and value creation across generations.[29]

CREATING A FAMILINESS ADVANTAGE[30]

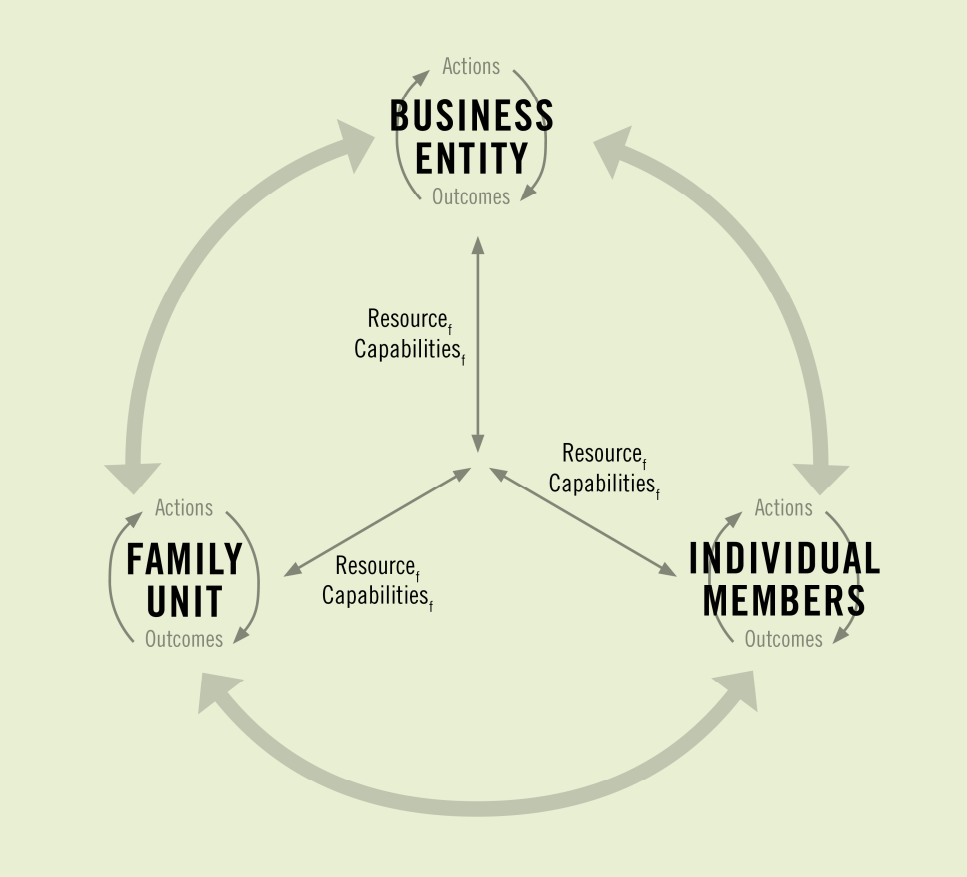



We undertook research on the Roche family and their involvement in the NTR group. This rich case study of a third generation family business identified multiple research themes, but of notable prominence was the impact of social capital and reputation on the ability to grow the family business internationally. NTR is an Irish infrastructure portfolio business, with a

presence in eight countries, across three continents. A firm employing over 3000 employees and sales volume of $550 million (2010). NTR is one of the great success stories of the Irish infrastructure industry, a firm that achieved market saturation in the domestic economy and was forced to embrace the global market for continued economic security. What makes the case of NTR so notably distinct was the emergence of a thriving infrastructure business against a backdrop of harsh economic and social conditions. This case traces how a man from humble beginnings, having left formal education at 16 years, grew a business that now spans much of the globe. Of particular interest to the research team was the depth of social capital, notably the reputation as a family business they have acquired across its three generations and 80 years in the infrastructure industry.

In the resource-based view of the firm, reputation is seen as one of the key asset bases.[31] The intangible nature creates a strong barrier to entry and is difficult for competitors to replicate[32] [33]. Furthermore, Deephouse[34] identifies three value creating strategic benefits of reputation (i) it allows a firm to lower cost (ii) it allows a firm to increase price (iii) it can create competitive barriers (p. 1098). The core research objective of the Irish STEP team was to identify reputation in a family business that reflects three systems of influence, namely the business, the family and the individual members and their resulting impact on entrepreneurial behavior (see Family Systems Model figure below).

FAMILY SYSTEMS MODEL[35]




We see that the reputation of the family has been instrumental in pursuing international development at a firm level. The following sentiment reflects the attitude of many acquiring firms:

> *"Although the NTR group is a PLC, when acquiring firms hear that the primary shareholder is a family called the Roche family, and they hear about our legacy, they like the values we possess and what we stand for" (Tom Roche, second generation). "We are dealing with people who possibly share our own family values, they do not like dealing with a faceless company that they cannot relate to, and particularly in the US as most of the big companies we partner with, started out as family companies" (Tom Roche, Chairman, NTR).*

The research also shows the highly appropriable nature of social capital and how succeeding junior generations leverage the network ties of their senior generations to spur entrepreneurial activity. The firm has worked hard to ensure the transgenerational transfer of social capital between the three generations of the family. Tom Roche states: *"My father commanded huge respect within the industry and through my close workings with him I was immersed into his network."* The most prominent aspect of this social capital (network/reputation) transfer was the family's ability to strategically manage the resources within the family unit. The family sought to professionalize the family side of the family business and to ensure that the resources derived from the family are structured, bundled and leveraged. This follows the line of argument of Priem and Butler[36] who note the need for a dynamic perspective on resource stocks within firms and to successfully accumulate, combine and exploit such resources. Such strategic foresight is closely aligned with an emerging dimension of family business research namely the need for resource management practices.[37] The ability of the Roche family to effectively manage their distinctive familiness resources is critical to ensuring their transgenerational survival.

**Key Insights in a Nutshell**

- Family business' intangible resources, like reputation, are necessary but insufficient to achieve a competitive advantage.
- Family firm resources, both tangible and intangible, must be effectively managed through a resource management process to attain competitive advantage and wealth creation.
- Family ownership reputation when successfully managed can offer a source of competitive advantage for firm level outcomes.
- Family ownership reputation is a core intangible asset to family businesses and a resource than must be carefully maintained to enhance the transgenerational potential of the firm.

## Taiwan: Transgenerational Innovation Capability: A Life Cycle Perspective

*Hsi-Mei Chung, Kuang S. Yeh, and Shyh-Jer Chen, National Sun Yat-Sen University*

### Introduction

Family business is a common organizational form in both large and small-to- medium-sized (SME) Chinese business enterprises. In Taiwan, family-owned enterprises play important roles in economic development. However, how these family-owned businesses sustain competitive advantage from generation to generation is a big challenge. Previous research highlights that developing innovation capability is critical in addressing family business sustainability issues.[38] However, in the family business context, there are both good and bad sides in developing innovation capability.[39] On the one hand, the unique ownership and managerial structure in a family business will cumulate social capital, which is conducive to innovation.[40] On the other hand, the controlling family can create greater agency problems that restricts innovation.[41] A key concern in the family business field is to identify the driving conditions where family business can stimulate innovation capability from generation to generation.

This study addresses the inter-generational innovation capability issue in the family business context based on life-cycle considerations.[42] Previous studies concerning the growth stage of family businesses focus on a single case. Thus, it is difficult to determine how family businesses across different life-cycle stages link social capital to innovation capability. This study tries to utilize case comparison method to explain how the large and small-to-medium-sized family businesses can generate innovation capability in their different organizational life cycle stages (see The Dimension of Life Cycle and Size Consideration table below).

THE DIMENSION OF LIFE CYCLE AND SIZE CONSIDERATION

| | **Organizational Life Cycle Stage** | |
|---|---|---|
| LARGE FAMILY BUSINESS | The early stages, large size | The later stages, large size |
| SMALL-TO-MEDIUM-SIZED FAMILY BUSINESS | The early stages, small-to-medium-sized | The later stages, Small-to-medium-sized |

This study compares four case studies on Taiwanese family firms to examine how innovation capability can be developed in large and small-to-medium-sized family businesses from a life-cycle perspective. All the family businesses in this study at least belong to the second generation, and they all agree that innovation capability is a key concern in family business's success (See Taiwanese Cases Overview below).

**TAIWANESE CASES OVERVIEW**

| FAMILY BUSINESS | FOUNDED YEAR | GENERATION | INDUSTRY | LIFE CYCLE AND SIZE |
|---|---|---|---|---|
| **A** | 1950 | 3rd | Fine-machine manufacturing | The later stages, large size |
| **B** | Mid-1990s | 2nd | Food manufacturing | The early stages, large size |
| **C** | 1890 | 4th | Food manufacturing | The later stages, Small-to-medium-sized |
| **D** | 1970 | 2nd | Lock manufacturing | The early stages, small-to-medium-sized |

As illustrated in the last table below, we find that the family social capital that is good for developing innovation capabilities is different and unique for those large and small-to-medium-sized family businesses that are in the early and later life cycle stages. Additionally, in addressing the innovation implications of family social capital, we find that the distinctive family and organizational social capital in each family case in this study has different innovation implications.

| | The Later Stage of OLC, Large Size | The Early Stage of OLC, Large Size | The Later Stage of OLC, Small-to-medium Size | The Early Stage of OLC, Small-to-medium Size |
|---|---|---|---|---|
| **FAMILY BUSINESSES** | **A** | **B** | **C** | **D** |
| **FAMILINESS: Human Capital** | The president's rich experience and decision in diversification helps develop businesses, and deepen family business' tacit knowledge. | The second generation of family business has abundant managerial knowledge and experience. The second generation improves the process of production and dominates the operation of the firm. | Previous generations spend efforts to build the impression of products. The president is good at marketing and product positioning. | The founder has spirits and technology of invention, and is great at R&D and innovation. |
| **FAMILINESS: Social Capital** | The founder has good relation with the government, and it helps develop businesses and acquire specific resources and power. | The family business is highly connected with regional culture. | The president's social network helps develop businesses. | Recently, the firm organizes the union with other manufacturers to promote the value of brands and their industry. |
| **FAMILINESS: Patient Financial Capital** | The firm continues increasing capital, and gathers more capital from IPO. Financial arrangement of the firm is quite conservative. | 100% family-owned | Brand value of the firm; the president 100% owns the firm. Financial arrangement of the firm is conservative. | Most family members are stakeholders, and it is good for stable finance. |
| **FAMILINESS: Survivability Capital** | The founder's brothers also take important positions in the firm, and they are more united than non-family members. The firm keeps R&D human resources by giving them stocks. | Family members also work in the firm, and they are more united and work more carefully than non-family members. | Family members are the base of human capital, and the capital sustains the brand. | Family members are the base of human capital; the value of brand becomes the firm's advantage. |
| **FAMILINESS: Governance Structure and Cost** | The firm already has formal governance structure, and most of the board members are family members. | Because of 100% family-owned, governance structure and cost are not the issues. | Because of 100% family-owned, governance structure and cost are not the issues. | Because of almost 100% family-owned, governance structure and cost are not the issues. |
| **ORGANI-ZATIONAL RESOURCES** | There are organizational resources. | There are organizational resources. | There are no organizational resources. Professional teams are introduced into the firm gradually. | Familiness is equal to organizational resources |
| **TYPES AND ADOPTION OF RESOURCE** | Types of resources are over the scope of familiness. | Several types and combinations of resources | Most resources are derived from family members. In other words, resources overlap individual family members. | Single type of resource and the resource is controlled by core family members. |
| **TYPES OF INNOVATION** | The later generations should develop capability of innovation. They also have to consider investing resources in which types of innovation, such as technical innovation (product innovation), service and policy innovation (marketing innovation) and non technical innovation (implementation and adaptation of system). | The second generation need to sustain the capability of technical innovation (product innovation), and make the capability match with non- technical innovation (implementation and adaptation of system) which performs with organizational resources. | The later generations have to choose types of innovation, such as technical innovation (product innovation), service and policy innovation (marketing innovation) and non-technical innovation (implementation and adaptation of system). They need to accumulate organizational resources by performing innovation. | The first generation focuses on technical innovation (product innovation); the second generation focuses on non- technical innovation (implementation and adaptation of system). |

**Key Insights in a Nutshell:**

- Developing innovation capability is critical in addressing family business sustainability issues.
- Family businesses in different life-cycle stage and size need to develop the different types of synergy between family and organizational social capital in order to accumulate innovation capabilities.
- Family businesses choose specific types of innovation to make familiness match with organizational resources, and then attain competitive advantage.
- The larger and the later in the life cycle a family business is, the more likely the need to develop institutional arrangements to attract non-family business professionals in the field of innovation.

# Governance and Planning

## Germany: Entrepreneurial Teams for Renewal and Growth

*Markus Plate and Arist von Schlippe, Witten/Herdecke University*

Entrepreneurship is a central part of business life and is often seen as a "lifestyle" of an individual or a family. Setting up new or revitalizing old ventures requires a certain skill set and workload, which is not necessarily provided by a single entrepreneur. In addition, although entrepreneurship is necessary for a business to survive on the long run, it is also necessary to manage the existing business well. To handle both processes—entrepreneurial growth of new businesses and management of the existing business—a team might best provide the required resources.

In the following, we provide a framework and insights from theory as well as from three of our STEP cases (see table) regarding the setup of entrepreneurial and management teams. In addition, we provide questions which might be helpful for a self-assessment.

GERMAN CASES OVERVIEW

| | A - Portfolio AG | B - Retail KG | C - Production AG |
|---|---|---|---|
| INDUSTRY | Circular Flow, Logistics, Waste Management | Furniture, Decoration and Renovation | Health, Beauty |
| EMPLOYEES | 32.000 | 1.600 | 84 |
| TURNOVER EUR | 6.300 Mio. | 340 Mio. | 13, 4 Mio. |
| FAMILY INVOLVEMENT | Management, Board | Management, Board | Board (former: management) |
| FAMILY GENERATION | 2, 3 | 1, 2 | 3 |

### Conflicting needs of stability and newness

The family business field is characterized by conflicting needs. For example, there is the need for continuity and stability on one hand, and the need for change and newness on the other hand. Both are necessary for a family business to evolve, and both are conflicting in the way that:

(1) One person cannot do both at the same time

(2) Both processes need quite different skills

(3) Both processes have contradicting goals

In the family business, newness is related to entrepreneurship and innovation. Entrepreneurship introduces the "new" into the organization and into the market. New products, services and processes can keep the business healthy and competitive, and provide further opportunity for growth. Exploring new opportunities requires time and special resources (personnel, knowledge, networks, financial capital etc.), and will likely take time to generate significant revenue.

On the other hand, known opportunities need to be exploited and investments harvested. To achieve this, organizational routines are set up to provide services and products. Over time, these routines are likely to be further coordinated and integrated, and thus are conducted more efficiently. The resources used in this area are usually well known and calculable, and the organization usually earns money in exploiting known demands.

In the first years, Entrepreneur A managed the growth of the company mostly on his own. It was a time-consuming phase that took its toll on health and the family. Realizing that he wants to seize the opportunities in the market, but that his resources are limited, he managed to convince two *"very competent persons*" that complement his skill profile to work in the company. Their skills were well developed, thus they were able not only to deal with the status quo, but to grow the company more than 150-fold. *"You need to pay them very well, and to give them their freedom—otherwise it wouldn't work,"* he says. Their collaboration was characterized by *"deep respect"* on one hand, and *"frank discussions and confrontation"* about the results of the company on the other hand. All shared the vision to grow the company and thus developed a culture where arguments (not persons) counted and acted in concert in order to realize the decisions that were made.

**Entrepreneurial teams**

Entrepreneurship and growth need resources and a special skill set. One of these resources is management. It is evident that one person—the family entrepreneur or family leader—is unlikely to provide all the management resources needed by an organization of a certain size. To promote the growth of the company, in all of our cases the family entrepreneurs founded strong entrepreneurial/management teams to provide these resources.

In the following, we provide some insights from our cases and from theory to provide a framework of guiding questions for the owning family. You can

use these questions to assess your situation—whether you already have an entrepreneurial team, or are thinking about setting one up.

Entrepreneur B is a founder and invented a new concept for the retail sale of furniture and goods for renovation and decoration. He grew the company with remarkable speed and in collaboration with a management team, and later as chairman with experienced partners. Two aspects are interesting here: On one hand he stated that *"the company performed better when I left it. I brought too much disturbance into the company."* On the other hand he describes his thinking-style as *"getting the whole picture," "jumping from aspect to aspect," "horizontal,"* while his partner is described *as "number-oriented," "thinking things through,"* and *"linear/vertical."* Although they are very different in this regard, Entrepreneur B says: *"We are ideal partners."*

**Assess yourself**

As time is a scarce resource, and every person usually has a distinct skill set that allows them to excel in certain areas, while being average in others— you should assess yourself:

- Which skills do you have? Are you more skilled in generating new ideas and setting up new ventures, or in providing stability and making the organization more efficient?
- Do you have time resources left? Are you happy with the distribution of time among business, family, and private life/health?
- Do you want the company to grow? Does the company need to explore new ventures in order to survive or grow? Which skills and resources does the company need for that purpose?
- Is your time and skill profile a promoter of growth, or does it constrain growth?

Setting up new ventures always creates disturbances in the organization, and this could lead to a loss of performance. On the other hand, new ventures need champions that protect them from the "tried-and-true"s—logics of the existing venture. Being aware that exploration and exploitation are necessary aspects of the business life, both aspects should be matched with responsibilities accordingly. Here, Entrepreneur B is responsible for entrepreneurial "disturbances," while his management team is more concerned

with stability. In addition, the team with his partners also allows getting both the "whole picture" and "detailed and in-depth" insight. The players in this team need to deal with these different approaches, where a shared vision is the first step.

Entrepreneur C, being an engineer, is very interested in technology and revitalized his business by introducing an innovative production method. He generated a lot of ideas and explored numerous applications of the new technology. This led to a very diverse product portfolio, but needed a focus on profit optimization. He worked with a nonfamily member in the top management who had a different focus. Having his background in management, the nonfamily manager reorganized the company and focused it on the most profitable parts. Both functions—newness, diversity, curiosity and starting new ventures; and stability, focus, profitability and continuing/completing existing ventures—were necessary to be balanced in the company.

**Team members**

A team needs to develop a shared understanding of the current issues in the organization, the market and of the vision and mission of the business family. Next, the resource and skill profile of the members should complement each other. You might find the need for technological/innovative skills, marketing and sales, administration and human resources, finances and accounting, and operations; or only some of them. Make sure that you deal with the conflicting poles of exploration and exploitation by either setting up separate teams for each function, or ensuring that the persons concerned all share an entrepreneurial attitude and are aware of this issue and able to deal with it. The goal of a purely entrepreneurial team would be to identify, evaluate, and realize new opportunities, and to manage the growth of the company; while mixed teams are concerned both with stability and entrepreneurship, and need to deal with this conflict accordingly.

**Assess yourself**

Not every member of your top management team is necessarily a good member of an entrepreneurial team. Regarding the team members, you should ask yourself:

- Are they able to manage the next step of the company (and not only the status quo)?

- Are they able to think and behave entrepreneurially?
- Do they share the vision of the company and family?
- Are they team-players, able to deal with the differences in attitude, skills, thinking styles etc.?

**Conditions**

To get competent people on the team—who are sometimes better educated than the family entrepreneur—certain conditions are needed. Make sure that you understand each other on the basic human level and that you develop a culture of respect and frank communication where arguments count. In addition, you should answer the question why a well educated manager should work in your family business and not in an international public company with different career opportunities. Think also about compensation, freedom for personal development, the possibility to profit participation etc.

**Key Insights in a Nutshell:**

- Exploration of new ventures and exploitation of existing ventures require different skill sets and thus need to be treated differently.
- An entrepreneurial team can provide the necessary resources for renewal and growth.
- There needs to be alignment of vision between family ownership and management in order to fully leverage a firm's resources
- The family needs to create a culture which embraces all contributions and sets conditions of which are competitive to attract valuable non-family management talent.

## India: Family Governance, Entrepreneurship, and Wealth Creation Across Generations

*K. Ramachandran and Alexander Mathew, Indian School of Business*

According to the STEP research framework, the transgenerational potential of a family firm is the consequence of the firm's performance (entrepreneurial, financial, and social) that are determined by the interplay between the family's entrepreneurial orientation (autonomy, innovativeness, risk taking, proactiveness, aggressiveness) and its familiness, the family's unique resources and capabilities.[43]

One of the key resources of the family that could promote the family's entrepreneurial orientation and thereby its transgenerational potential is the family governance.[44] This was the key insight from the two family firms, the GMR group and Shakti group, we examined in India. The descriptions of these family firms are outlined in the following table:

**INDIA CASES OVERVIEW**

| COMPANY NAME | GMR group | Shakti group |
|---|---|---|
| INDUSTRY | Diversified: mainly infrastructure and manufacturing | Spices and diversified technology |
| COMPANY AGE | 33 years | 64 years |
| FAMILY GENERATION | 2nd | 2nd |
| NO. OF INTERVIEWS | 8 | 13 |

The commonalities in these cases have shed light on a number of important factors:

Both the cases highlight that involvement of younger generation family members is a critical factor in sustaining the entrepreneurship in family firms. The family entrepreneurship flourishes when family resources are available.

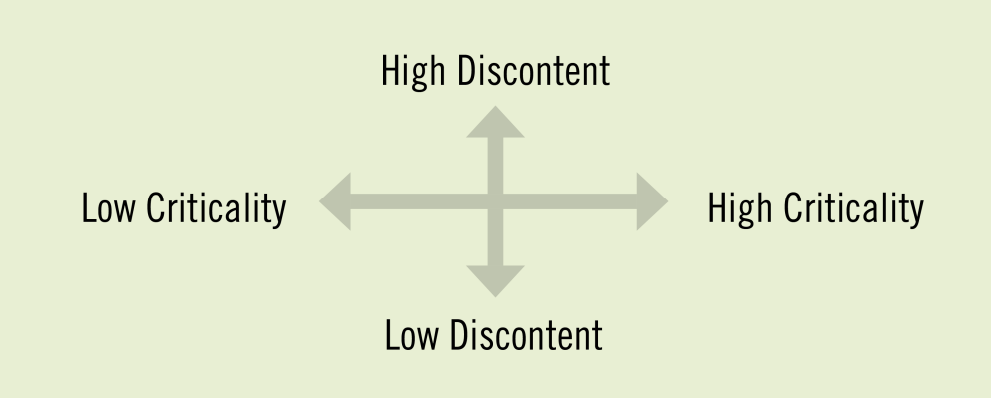
The entrepreneurial initiatives in both the families were successful primarily because they could identify and exploit the best opportunities. The two

characteristics of an attractive entrepreneurial opportunity are[45] (see Criticality - Discontent Framework figure):

1. The extent of the criticality of the need
2. The ability to address the level of discontent customers had with existing features

The best opportunities were those that were both high on criticality and discontent. Both the families focused on opportunities that met this criterion.

**CRITICALITY-DISCONTENT FRAMEWORK[46]**




In the GMR group case study, the founder realized early on the importance of keeping the family together to perpetuate the business across the generations. He proactively introduced accepted governance mechanisms both in the business and family. Institutionalization of governance mechanisms enabled the family to grow entrepreneurially while keeping the family intact.

On the other hand, the Shakti group case study provides a glimpse of the challenges in reaping the transgenerational entrepreneurial potential, when the governance guidelines and future direction becomes hazy. Together these two cases indicate the importance of a clear vision and governance structures in transgenerational entrepreneurial family enterprises.

**Key Insights in a Nutshell**

- Next generation involvement is a critical factor in sustaining the entrepreneurship in family firms.
- Identifying and exploiting the best opportunities is a critical skill for successful family firms to learn.
- The best opportunities both meet a critical need and address customer's discontent with current offerings.
- Intentionally institutionalizing governance mechanisms is the key to realize the full entrepreneurial potential of the family.

## Scotland/Uganda: Transgenerational Entrepreneurship and Long Term Strategic Planning

*Peter Rosa, University of Edinburgh*

The last 30 years has seen a meteoric rise in the influence of strategic management on the family business. To thrive as well as survive, it is argued, family businesses need to plan the development of their business or businesses, setting clear missions, goals and objectives, assessing systematically strengths, weaknesses, opportunities and threats, and devising detailed ways to achieve business objectives and success. They also need to plan the future direction and involvement of the family, establishing effective governance systems such as family councils to define family goals, share out the rewards of the business, regulate conflicts and demarcate unambiguously specialist roles for family members within the business. Above all long term planning is essential for transgenerational success of the business. A prudent family should plan for the timely transfer of wealth and resources to the next generation, groom younger family members to obtain the skills and attitudes needed to successfully manage the business, set up processes for the transfer of managerial leadership from the older to the younger generation, and for a smooth transfer of power. Succession planning is now regarded as one of the core requirements of the family business.

Strategic planning requires modern management techniques' that do not come naturally to many family business owner managers. Most people prefer to adopt "rule of thumb" and "back of envelope" approaches to planning, are happy to see what emerges before committing time and resources, and many are adept at "muddling along." Having to scientifically plan the future can not only be unfamiliar, but humbling and frightening. The knowledge how to effectively plan is specialized, and for most owner managers of family businesses, has to be bought in from experts.

The fact that an increasing number of family businesses are seeking help and advice is suggested by the rapid growth of family business consultancy during the last two decades. Still, despite the increasing penetration of family business consultancy, there is still some skepticism about its value. This tends to vary according to the nature of the planning. For example for wealthier family businesses the value of long term wealth management is self evident as families

confront the need to navigate through increasingly complex, unfriendly and even predatory tax legislation. Less obvious, perhaps, is the value of long term planning for succession, business objectives and entrepreneurial expansion. As one large family business leader commented to me, *"large corporate businesses do not spend twenty years planning who the next CEO will be, so why should we as a family?"* Another remarked *"who knows what our business will be doing in ten years time. I find it difficult enough to predict where we will be next year."*

The STEP project is designed to shed new understanding on long-term transgenerational entrepreneurship practices in family businesses. The strategic management debate lies at the heart of the project. One tradition of entrepreneurship research stresses how new firms or ventures can be established through good management and sound planning (the business plan school). For existing ventures their longer term performance is enhanced by having an entrepreneurial orientation, which can be systematically planned and supported by family firm managers. Other traditions, however, see entrepreneurship as a much more creative and organic process, one of dynamic and agile venturing in the face of unpredictable opportunities, uncertainties and risks, a process of experimentation and adaptation. In such traditions, formal strategic planning becomes rigid, stifling and unnecessarily bureaucratic, a process particularly unsuited to a world of rapid social, political, economic, and technological change. Trans-generational entrepreneurship evolves naturally under this view, and cannot be planned for in any detail. In fact, too much planning can stifle the development of an entrepreneurial family culture.

The limitations of formal planning have been raised by many scholars. In a famous book, *Small Is Beautiful,* published in 1974, E.F, Schumacher wrote *"All long-term forecasting is somewhat presumptuous and absurd, unless it is of so general a kind that it merely states the obvious."* He notes that planning is less a prediction, more a statement of intent, what planners intend to do, not what may actually happen. In fact planning, for Schumacher, is less to do with influencing future events and more to do with wielding power and maintaining power. Planning becomes an important tool for leaders to assert their dominance, by setting out their agenda, their managerial team, and their micromanagement of future vision and activities, their definition and description of subordinate roles and so on. Mattias Nordquist and Leif Melin, members of the STEP European consortium, in a recent article have noted the growing criticism of the "design

school" of strategy. They quote Mintzberg[47], who articulated three fallacies of strategic planning. Firstly, it is impossible to predict the future (*the fallacy of predetermination*); secondly it is impossible to separate strategic and operational management clearly (*the fallacy of detachment*); and thirdly that all planning has elements that are informal and "emergent" and these cannot be disregarded in assessing future outcomes (*the fallacy of formalization*).

In researching transgenerational entrepreneurship in family businesses and business families, the STEP Edinburgh University team, which now includes a partner team from Makerere University Business School, Uganda, is interested particularly **in the messy and unplanned processes that have led to long-term continuity and survival of entrepreneurial family businesses.** In case studies of the Mickel-MacTaggart family in Scotland, and the Madhvani family in Uganda, a careful study of the way these two large family businesses emerged since the late 19th century shows that unpredictable events have had major influences on the development of both the family and the businesses. Moreover the organization of a business into a group of businesses rather than a single business is a mechanism frequently adopted by business families to test out diversifications, involve different family members in new startups, and establish an evolutionary market mechanism in which promising businesses emerge, and those that fail to perform are divested. In time, a series of businesses come and go, but the family still remains in business as a coherent unit. Survival is brought about by the entrepreneurial churn of competing businesses and family members within the group, which result in the best surviving. It is less to do with structured long-term planning.

The Mickel-MacTaggart and Madhvani families' histories reveal complex patterns of entrepreneurial activity linked mainly with crises and opportunities arising from largely unforeseeable external events. The most traumatic events were war, the two world wars in the case of the Mickel family and additionally the expulsion of Asians from Uganda by the dictator Idi Amin in the early 1970s in the Madhvani case. The Madhvanis for example, lost many of their assets when agricultural commodity prices plummeted during WW1 suffered considerable contraction during World War II, and lost all their 70 or so Ugandan businesses in 1972. The Mickel family's business of housing construction came to an abrupt end at the outbreak of World War II. In the face of these calamities the families adapted very quickly to save the day. For

example at the outbreak of World War II the Mickel family switched operations quickly to building for the war effort (hospitals, factories, shelters, bomb repairs). The Madhvanis when they were expelled from Uganda built up new businesses in exile.

Both families were also very quick at exploiting new opportunities arising from changes in the business climate brought about by legislation and policy changes. The Mickel family was able to exploit government subsidies to boost housing stocks after World War I. Forced to change suddenly when the subsidies were withdrawn in the early 1930s, they successfully entered the private renting market, and quickly responded to legislation allowing mortgages to become more freely available by constructing high-cost housing. Similarly the Madhvani family took advantage of the prohibition on white settlement in Uganda to create a portfolio of agricultural commodity companies (tobacco, sugar, cotton) as demand picked up after World War II. In the 1950s and 1960s, they expanded their portfolio of companies to more than 70, responding to opportunities created by a newly independent Uganda's needs to develop and create jobs. They returned to Uganda following the fall of Amin to establish a new portfolio of businesses as the new Ugandan government sought to rehabilitate the country. One branch of the family saw advantages of globalization in the 1980s and has established the Global MISA group of companies with four main divisions and more than 20 companies worldwide.

The post-World War II conditions have been unusually volatile in the construction industry in the U.K., with frequent changes of legislation associated with a succession of labor governments. The Mickel family has pursued acquisitions and diversifications since the 1960s in response to severe recessions interspersed with periods of "boom." In the middle 2000s, the family has found new opportunities in urban regeneration and environmentally friendly green-field buildings involving joint ventures with other building firms. This promising recovery, however, has been severely hit by the current world recession.

Finally, both families experienced crises on business and family dimensions. These include dissolved partnerships and death of a leader—recovering from the consequences of these key events took more than a decade.

These brief illustrations mask the true complexity of the entrepreneurship evolution of both families. Just listing activities and events more than the 100 years of their existence is a very long process. The points made are highly

summarized and selective. We suspect that the history of most family businesses or business families also is complex and messy. How does this relate to our discussion on long-term planning? It is clear from these cases that no amount of formal long-term planning could have predicted many of the crises that afflicted them, or the opportunities that also emerged. Rather, each family has a philosophy of being alert to changes, and a body of knowledge and experience designed to enable the family to react quickly to changes. Depending of the environmental factors in question, entrepreneurial reaction can be driven by the need to survive, or by the attraction of a great opportunity, and each scenario has its own set of adaptive competencies to achieve it. The mechanism of setting up a business group of churning companies appears especially important in the Madhvani case, but less so in the Mickel family. We are still at an early stage of understanding "messy" transgenerational entrepreneurship in family businesses, and the nature of strategic orientation in such processes is understood even less.. In the last analysis, however, we find it a fascinating task.

**Key Insights in a Nutshell**

- Strategic planning requires modern management techniques' which do not come naturally to many family business owner managers.
- There is value in long term planning for succession, business objectives and entrepreneurial expansion, but over planning can stifle true innovation.
- Entrepreneurial activity is often a complex interaction of factors, with opportunity often emerging from unpredictable external events.
- Policy and legislation changes provide and take away opportunity—adapting quickly is key.

## Chile: Strategic Family Planning. What Is the Best Business for a Family Enterprise?

*Gonzalo Jiménez and Pia Bartolome, UAI*

Because we are a family, do we want the same things? Because I am your child, do I want the same things as you? Because we are siblings, do we do things the same way? These are some of the issues we have to deal with, as a family, in the face of business ventures and which can give rise to major conflicts. Such conflicts can be solved and even avoided through appropriate, constructive and sincere conversations that will make it possible to understand what each member of the family wants, in order to build a common project that will represent us and mobilize us all.

Some may think, when reading these lines, that our purpose it to urge you to involve the entire family in the operation of the business, but this is not the case. When we speak of families in terms of business, we do not refer to the operation of the business but to identifying what the family wants or expects from the business venture(s) it owns, in order to make joint plans and provide continuity and growth across time and generations. In this way, it can achieve the goal of becoming a transgenerational entrepreneurial family in accordance with the tenets of STEP.[48]

To think that because we are a family we want the same things, think alike, and do things the same way is a mistake, because in addition to being a family we are individuals, with our own mindsets, capabilities, and histories.

Strategic Family Planning (SFP) is a diagnostic, analytical, reflective and collective decision-making *process* in connection with current activities and the course that should be taken in the future by the *business family* in order to adapt to the changes and demands imposed by their surroundings and family structure. This will ensure their *continuity over time* with successful business results.

To achieve this, it is necessary to look at the family history, get to know it and be charmed by it. Because every family has a story to tell, a history that shows how through effort and unity it has managed to build the business venture(s) it has today. It also requires identifying the *BUSINESS MODEL* of the entrepreneurial family: its *strengths* and *weaknesses*, as well as its *opportunities* and *threats.*

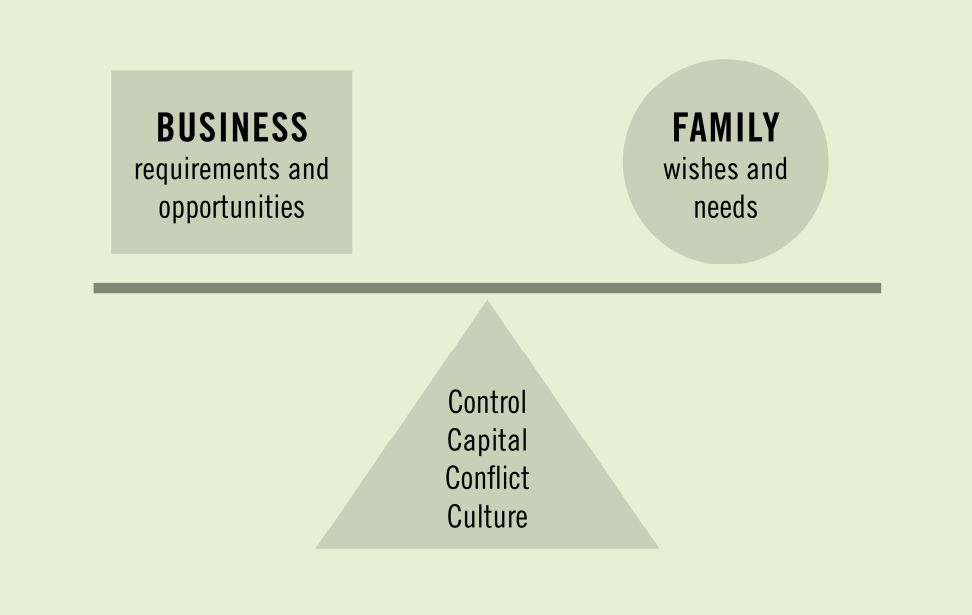
The process begins with this inward look at what we are—because I cannot build without knowing who I am and what my capabilities and resources are, and also without understanding the surroundings in which I am immersed. In this way, we define the *vision* and *mission* that will guide the entire process.

When speaking of strategic planning, one tends to think of the last quarter of the year, when you get together with your management and executive team to define the company's strategy for the following period and define various objectives for the different perspectives of the company: financial, market/clients, internal procedures and training, and growth. Can this be applied to the business family? Yes, of course, because it is a system made up of individuals who have to organize themselves to manage their common project and also to define their own objectives:

1. **With regard to equity:** establish the results the family expects of its business and the risks they are prepared to take, defining certain entrepreneurial policies that the directors must respect—when the family has the controlling interest—or try to promote if it does not.
2. **With regard to the market and clients:** the family is inserted in a community, and it has to define what role it will play in that community and decide whether it will be undertaking a project with social responsibility or philanthropy, for instance. In addition it has to establish how it wishes to be perceived publicly, how it will project its business portfolio, and how it will develop or strengthen its relations with its current or potential partners.
3. **With regard to internal processes:** how shall we organize ourselves to achieve the above objectives? Should we establish or professionalize our corporate and family governance? Should we generate a space for the new generations, such as a junior council? These are some of the issues that need to be considered.
4. **With regard to training and growth:** as a business family, it is important to generate a training process both for the new generations and the current ones, on business or entrepreneurial family issues, and develop a team capable of fostering the company's continuity across generations.

During the process, the circumstances and dynamics that make it possible to build a common project are developed, making it possible to deal with different internal factors (history, paradigms, prejudices) and external influences (in-laws, advisers, friends. See also Internal and External Influences figure).

INTERNAL AND EXTERNAL INFLUENCES




Thus, the objective of Strategic Family Planning (SFP) is both the process— opportunities for joint reflection and discussion—and the final product, a planning document that identifies the main strategic objectives. This document identifies the relevant indicators and initiatives, and defines responsibilities, deadlines, and factors to be dealt with during its implementation. This helps the family to create a balance between family and business aspects, defining each member's role and preparing for the future.

**Why implement an SFP?**

*1. It Improves Business Performance*

- It creates an excellent opportunity to *think and reflect* away from the daily pressures of business activities.
- It HELPS the family to focus on the business and create new guidelines, promoting future growth through the years and across generations.

- It allows the family to identify *policies and programs* that will reflect their changing values and allow them to create a new vision of the future.

*2. It Takes The Family's Expectations into Account*

- It *encourages* the family to examine their values, needs and goals on a programmed basis, to understand the critical role that agreements have on the success of the business and how these agreements change over time.
- Planning is crucial as families grow and mature, in order to *adjust* to the changes in family relations and agendas.
- It creates a formal structure to examine the changes. This results in important information and *insights* that will allow the family to become receptive to new ideas regarding how the changes in the family influence business, and help them avoid conflict and seek good alternatives to follow.

*3. It Perpetuates Trust over Time*

- A business family generates trust as long as it works within the framework of a *joint plan* and strives to find a solution to difficult issues.
- It helps to develop fair *rules and standards* and to apply them consistently among all members of the family. This also contributes to building trust, because everyone knows *what to expect* from their interactions with the family and the business(es).

**What do we need to implement an SFP?**

An SFP is intended for all families that own businesses and are interested in remaining together and maintaining a common wealth of assets. All that is needed is a firm *commitment* to the family project that is defined: the *will* to work, high *motivation* to develop the project, *receptiveness* to different opinions, *loyalty* toward the family, a long-term *vision***,** *respect* for others and *teamwork* to achieve the established goals.

**Key Insights in a Nutshell:**

- It is critical to devote time and energy to the family to have a successful family business.
- The Strategic Family Planning (SFP) provides a diagnostic, analytical, reflective and collective decision-making process to create long term agreement.
- Reflecting on who you are and where you came from is an important first step in the strategic planning process.
- There needs to be a balance between family wishes and business requirements—and a continual conversation around its status.

# Knowledge and Competencies

## Mexico: How to Integrate Knowledge Among Generations in a Family Business?

*Fernando Sandoval-Arzaga and Maria Fonseca-Paredes, ITESM*

Why is integration and sharing knowledge important among generations in a family business? This question has been formulated in different forums and spaces toward Latin American family businesses. If you were the founder or senior director of a business, it is likely that you would respond that it is important to transfer and share knowledge so that your know-how and your best practices do not get lost in the next generation. On the other hand you might answer that it is important to make sure that the "reason for being" of the family business is that the family's traditions, values, and culture are permeated into the subsequent generations. The same question might be answered by a junior family business member that sharing knowledge is important in order to create ideas and a portfolio of new businesses which allow the development of the family business.

We find ourselves with a certain amount of tension between generations, one side trying to preserve the best practices and a sense of family business, and the other creating new initiatives and business practices. This tension can be managed between the different generations if a mechanism is established in order to share and create knowledge, that is, as a dynamic, interactive process which incorporates the expertise of the founders with the new, fresh ideas of the juniors which, in turn, allow for innovation without losing the sense of a family business.

In sum, the integration of knowledge is essential because it can represent a competitive advantage, allow innovation and it is a resource and distinctive capability of the family business.

In our STEP research in Mexico, we took the concept of *Familiness* as a reference, which is defined as *"the unique bundle of resources a particular firm has because of the system interaction between the family, its individual members, and the business."* We propose that knowledge is an essential ingredient of familiness. Knowledge integration is the ability and capability to integrate the specialized knowledge (expert) of the members of an organization.

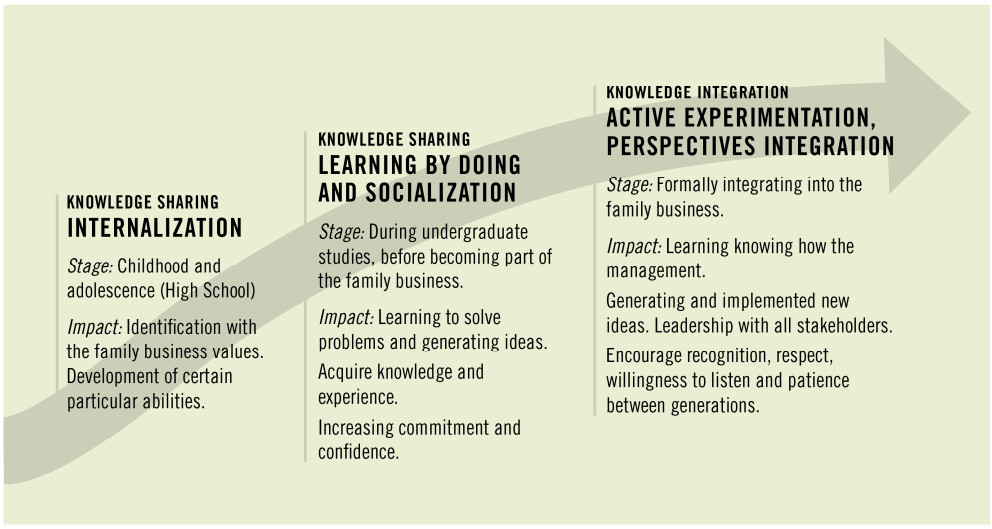
To deploy and potentiate the use of expert knowledge it is essential to solve complex problems, develop new ideas or implement improvement actions.[49] As a dynamic capability knowledge integration in the family business has been critical for their survival and sustainability in dynamic markets.[50]

We analyzed the paths and forms used by different family members from one generation to another in order to complement and integrate the expert—or specialized—knowledge in the context of Latin American family businesses. We selected cases from the STEP project, and the basic criterion for selection was to choose Latin American family businesses that excelled through the innovation of their products, services or processes. We thus analyzed seven Latin American cases.

In the first place, we can distinguish that in each one of the family businesses, development of the successors in the timeline has existed from the time they were young until they assumed administrative positions in the company which included, as a final result, the integration of knowledge. It would be difficult to imagine that these Latin American family businesses were successful in their processes of innovation without these mechanisms of formal and informal learning.

The following diagram shows the pattern observed in the development of the successors over time and the impact it had on their learning and knowledge:

**KNOWLEDGE DEVELOPMENT OVER TIME**



Another important pattern that emerges are the principally informal actions or strategies—as well as some formal ones—that were carried out by the family members between generations and that allowed for sharing and integrating knowledge. These strategies are, for each stage, the following:

***Stage 1: Childhood and Adolescence (High School)***

Visit and work informally in the family business (weekends and summers).
Tell stories and narratives in informal reunions (bedtime stories, family meals).

***Stage 2: During Undergraduate Studies, Before Becoming Part of the Family Business***

1. Assign challenging projects with little guidance (laissez-faire).
2. Go to business fairs together and share relevant readings of the family business (between generations).
3. Allow the junior generation to work outside of the family business for a few years.

***Stage 3: Formally Integrating into the Family Business***

1. Begin with a staff position oriented toward innovation and/or strategic planning.
2. Guide the new member so that he/she knows how to build relationships and social capital.
3. Foment the master-student relationship.
4. Relate family stories to the innovation processes.
5. Create formal spaces of communication (executive committee) among the members of the family.

**Key Insights in a Nutshell**

- Family business and practitioners should identify their family business stage and explore the status of their knowledge resources.
- Use strategies within the plan of succession to train and develop potential successors.
- Measure the impact of the results of strategies when compared with the results proposed in this paper for each stage.
- Guide the use of knowledge for each stage, seeking in the final stage not only to share knowledge, but also to integrate it among the different generations.
- Promote the conscious use of knowledge within the family business as a key resource.

## Colombia: Tacit knowledge and the Discovery-enactment of Entrepreneurial Opportunities

*Gustavo Gonzalez, Ana Cristina Gonzalez, and Luis Díaz, Universidad de los Andes*

Latin America faces problems and challenges including income inequality, lack of mass and high quality education, low health coverage, and informal employment that make research on value and wealth creation key for its development. Colombia is not an exception in the region. Although the country has made major improvements in the last few years, it has faced social, political and economic complexities, combined with a history of violence in recent decades due to guerrilla groups and drug lords that are now being subdued, but it will take Colombia some time to recover.

Family businesses in Colombia are the main contributors to the economy. The STEP project has offered the possibility for deepening the understanding of what entrepreneurial families need to continue creating value across generations. Knowledge, according to STEP, plays a crucial role for enhancing entrepreneurship in younger generations of families that own and/or control businesses. Knowledge and other resources (leadership, networks, capital, decision making, culture, and governance) constitute unique dimensions of a family that, together with its forms of entrepreneurial orientation (EO), help explain financial, social, and entrepreneurial performance of family businesses. The right combination of said resources and EO explains why some families remain entrepreneurial over time: this is what transgenerational potential means.

Such is the case of tacit knowledge (TK), i.e. practical know-how not acquired through formal education.[51] TK is a skill or know-how that resides in individuals and working groups and is not easily codified nor communicated. This type of knowledge develops capabilities that can become a competitive advantage for a family business.[52]

Based on the findings obtained through a three-year involvement in the STEP Project for family enterprising in Colombia, as signaled by Smith, Matthews, and Schenkel[53] Uniandes STEP Team has illustrated how TK transfer has contributed to last generation's potential for discovering-enacting opportunities for their businesses, as well as starting spin-offs of their own, in six Colombian companies presented in the table below.

### COLOMBIAN CASES OVERVIEW

| COMPANY | GENERATION | SCOPE | SIZE | INTER-VIEWS | YEAR | FAMILY CEO | FAMILY MEMBERS IN THE COMPANY |
|---|---|---|---|---|---|---|---|
| **Oil Drilling** | Second | National | Medium | 6 | 2007 | Yes | 5 |
| **Financial Services** | Second | International | Medium | 5 | 2007 | No | 2 |
| **Eggs Production and Distribution** | Second | Regional | Small | 5 | 2008 | Yes | 4 |
| **Food Industry** | Second | International | Big | 17 | 2008 | Yes | 13 |
| **Cargo and Logistics** | First and second | International | Big | 11 | 2009 | Yes | 11 |
| **Newspaper** | Third | Regional | Small | 6 | 2009 | Yes | 4 |

By focusing on last generation's perception of the relationship between TK and the discovery-enactment of entrepreneurial opportunities the findings include:

Family members have a collection of sayings, situations, and interactions with their parents that provide them with the motivation to continue with the business. Last generation members acquire "ways of doing things" through interactions with family and business, that help decision making, performance and new ventures seeking.

A lesson for previous generation members is the encouragement of interactions with their heirs to foster links with the business and inspire in them such an entrepreneurial spirit to the point that survival of the business makes part of their goals in life. Dyadic relationships that enhance TK transfer between generations enhance innovation originating on both sides.

It is important to identify niches of development in last generation members. This aids TK transfer, given the recipient's willingness to embrace the experience of working at the family business.

Older generations, by holding ground with values and practices that might seem conservative allow for cautious, but valuable undertakings. After all, it's the family's wealth that is at stake.

The development of networks by previous generations is practically impossible to codify. It is only through TK transfer, by sharing experiences and practices where interactions amongst network members take place that younger generations learn the tricks of the trade.

Younger members are not the only originators of innovations, or the older the cautious guardians of practices. The discovery-enactment of entrepreneurial opportunities is enhanced by a close relationship between generations with TK as a contributing factor.

By acquiring the experience and knowledge of the core business, younger generations find, in an easier and almost straightforward way, new businesses to develop.

Last generation members, supported by TK transfer, have introduced improvements, in managing themselves, tasks (or businesses) and others, that have fostered appropriate scenarios to create business opportunities.

In general, it was found that the dialogue across time amongst generations, especially the one that takes place within a setting of TK is an essential means to become entrepreneurial. Entrepreneurial opportunities are not just sitting there waiting for someone to discover them, many have to be enacted and this is better accomplished when a long range time horizon plays a role. This can be accomplished when the experiences, beliefs, theories of members of several generations create a common end: to grow the family business value.

**Key Insights in a Nutshell**

- Tacit knowledge (TK), which is the practical know-how, not acquired through formal education represents a potential competitive advantage for family firms.
- Tacit knowledge is a driver for opportunity discovery and spinoffs in family firms.
- Business families often have a commonly understood and informally learned "way of doing things" which can provide a continuity advantage for next generation family members.
- There is not always a clear dichotomy between the younger generation with new ideas and the older generation with cautious and conservative practices.
- Family firms should recognize, discuss, and leverage their tacit knowledge resources.

## Spain: Competent Entrepreneurial Business Families

*Alberto Gimeno and María José Parada, ESADE*

Family businesses are often the main driver in the transformation of societies. Since the industrial revolution they have been changing the panorama, creating trends and developing innovative business models. They tend to create employment sustainable over time and are conscious about their environment, placing social responsibility as a core value. They create value, preserve value, and distribute value.

In our research we found that family businesses that act successfully in creating value over time are able to do so at two different levels. The individual level, in which the entrepreneur is the main source of advantage, ideas, vision and execution. The group level, where the family, as a group, is able to foster and empower the creation, preservation and/or distribution of value.[iii]

We observed that, when not upgraded to the family level, value creation is not sustainable over time. When value creation is focused exclusively in one or very few people, in the long run, the result at the family level is family value consumption or value destruction.

We defined competent business families as those that are able to create, maintain, and distribute value over time. We have observed some common characteristics in these families and, consequently, in their businesses.

1. **They are able to change their values over time**[54]

   These families are able to keep their core values as long as they are still functional, they are able to abandon them if values become dysfunctional and are able to incorporate new values when needed. The Overview of Different Values figure below synthesizes what we observed in the cases we studied.

[iii] We will call it value creation in the following.

**OVERVIEW OF DIFFERENT VALUES**

| MAINTAINED VALUES | ABANDONED VALUES | INCORPORATED VALUES |
|---|---|---|
| - Hard work | - Primogeniture | - Freedom to choose |
| - Trust | - Patriarchy | - Gender equality |
| - Commitment | - Gender differentiation | - Recognition of differences between family members |
| - Austerity | - Ownership = management | - Differentiation between person and role |
| - Continuity | - Equality between family members | - Ownership rights |
| - Long term | - No ownership remuneration | - Professionalism of management |
| - Risk taking | | |
| - Exigency | | |
| - Education | | |

This means that as important as transmitting values is the capability of being able to abandon values or incorporating new ones. This maintains the family business fit to deal with the challenges at different points in time.

This is not an easy task. In all cases there have been social leaders (institutional champions) that have been able to build consensus, to convince and to make things happen in a smooth way.

2. **They are able to change from the leader to leadership.**

Family businesses are founded by individuals that act entrepreneurially with the ambition to grow the business. They have the vision, tend to be followed unconditionally, and tend to have the capacity to generate cohesion and trust.

When this model is replicated in the next generation it may jeopardize the family business.[55] As complexity grows, different types of leadership are needed and competent business families switch the main focus from the individual level to the group level. They are able to cope with their complexity and develop different types of leadership as new generations come on board (such as social leadership and entrepreneurial leadership).

Competent business families are able to move from the leader to leadership, building on different leaderships that are able to cope with the family business complexity at managerial, strategic, and relational level.

3. **They are able to build on the individual profiles.**
   Competent business families are able to recognize and legitimate the different individualities of the family members in terms of personal characteristics, interests, profiles, motivations and life projects.
   The entrepreneurial family dimension as a common sphere that does not neglect the individuality but, on the contrary, builds the relationship on their individual differences. Besides that this can seem a paradox competent business families build themselves around the best of what the different individuals can offer, instead of building around their equalities as family members. This allows collaboration in building the future instead of rivalry in maintaining the status quo.

4. **Competent families develop entrepreneurial family teams (EFT).**
   We observe that solo-founders and top management teams are a key resource within the family's pool of resources (familiness), which tends to weaken over time, mainly due to family complexity. Competent business families avoid this trend by transforming themselves into entrepreneurial family teams (EFT), defined *"by a specific structuring of participation, of all family members that form the owning coalition in the business. All of them feel they belong to the family business, stress value creation over value preservation, and participate in the entrepreneurial endeavor in a structured way."* Over time, successful family businesses evolve into EFT, allowing them to sustain their competitive advantage or familiness advantage (see Solo-Owner to EFT table).

**SOLO-OWNER TO EFT**[56]

| | Solo-owner | TOP Management Team (TMT) | Entrepreneurial Family Team (EFT) |
|---|---|---|---|
| FAMILY COMPLEXITY | Low | Low | Medium and High |
| COMPOSITION | The founder | Siblings or cousins (usually 2-5 family members) | All family members involved in the FB (in management or ownership, or future ownership) |
| MAIN VALUES | Individual project | Team project | Family project |
| ROLE OF THE FAMILY | Follow the entrepreneur | Follow the TMT | Family fosters and supports the entrepreneurial endeavor |
| GOVERNANCE | No governance structure: the entrepreneur is everything | Weak governance structure: the executive committee coordinates the team | Structured governance: differentiation between ownership sphere, governance sphere and management sphere |

## HOW DO THEY DO IT?

All cases have sustained and developed their familiness advantage by creating *their own combination of family complexity, business leadership teams, governance structures, and relational patterns*. There has been a *social leader* (institutional champion) who has worked "backstage" to make changes happen, such as the process of value change. Founders or solo-owners have shown their capacity to lead by *transforming their entrepreneurial behavior and their role as leaders into leadership of various forms*, leaving space for the coming generation. They were able to *build relationships and allow communication* at different levels depending on the situation and complexity. They *generated systems* adapting them at each moment in time that helped in structuring and putting order to their increasing complexity.

They focused *on maintaining an entrepreneurial mindset* by: allowing individuals to develop themselves as unique, letting others space to grow either within or outside the company, encouraging others to create new businesses or projects and develop them, changing values, respecting and exploiting differences, thinking in the long run, building a common vision where each individual can add value from different perspectives and positions.

**Key Insights in a Nutshell**

- Family firms create value on the individual and group levels.
- Family firms often start with a visionary founder and need to transfer that mindset and value creation capability to future generations to be successful over time.
- Business families need to learn when to maintain, abandon or incorporate different values over time.
- Successful business families build an entrepreneurial leadership team and do not rely solely on a single entrepreneurial individual.

## England/Cyprus: Collective Transgenerational Learning about Entrepreneurship

*Elias Hadjielias and Carole Howorth, Lancaster University Management School*

The Lancaster STEP team has been examining how family members learn to be entrepreneurial. How do next generation leaders acquire the competences and entrepreneurial skills that are necessary for leading the family through the next phase of entrepreneurship? What can we learn from other families' successes and difficulties that will guide new generations of families in business?

We focus on family members who are actively involved in the management of the family businesses i.e. the "Family Management Group" (FMG). Previous research indicates that, in family businesses, core decisions, particularly those related to entrepreneurial action, are more often taken by family members than nonfamily executives. Next generation family members often become part of this family management group at a young age and therefore it is important to examine how entrepreneurial skills are learned so that families can ensure the best learning conditions and environment for each generation.

Our findings suggest that family members who participate in the management of their family's business—i.e. the FMG—engage in entrepreneurial practices that are important sources of collective entrepreneurial learning. Jason Cope's earlier work on entrepreneurial learning showed the importance of learning from critical incidents, such as a business failure or a crucial mistake. This is because critical incidents tend to trigger critical reflection. Whilst mistakes and critical episodes may not always be welcomed, they can be used to engender learning. Much of our work with businesses at Lancaster University aims, more effectively, to encourage critical reflection without waiting until there is a critical incident. As family members question existing practices and ways of doing things, it triggers transformation and change. Since the FMG is at the epicenter of family business entrepreneurship, such changes are capable of shaping new ways of practicing entrepreneurship within the family business.

**The Theory**

It has been shown that collective processes of reflection within the workplace explain collective organizational learning. Reflection is thus seen as an organizational rather than an individual process. Critical reflection allows members to question their assumptions and beliefs, and releases them from perspective-limiting assumptions. Practicing this critical reflection publicly, i.e. in the presence of others, enables a group of organizational members to transform group and organizational practices and make true organizational learning possible. For this to happen, it is essential that the team members have psychological safety. This is dependent on interpersonal trust and mutual respect in which team members feel comfortable being themselves. Open critical reflection and thus collective learning will not occur within an organization where members do not feel safe.

**The Evidence**

This research draws on previous studies of organizational learning and entrepreneurship and uses them to explore learning in three STEP cases. Eighteen in-depth interviews were conducted within three multigenerational family businesses in Cyprus. All the case firms have a strong track record in transgenerational entrepreneurship. Research participants included family members inside the Family Management Group plus other business stakeholders that could provide their observations of the engagement of family members in family business entrepreneurship.

**Entrepreneurial learning is enhanced by:**

- Meeting together frequently, formally and informally.
- Physical spaces where you interact.
- Critical reflection.
- Strong relationships with sufficient trust to criticize each other's actions openly.
- Freedom to act and make mistakes.

**Key Insights in a Nutshell**

- Business families have the ability to learn about entrepreneurship collectively.
- Critical reflection, in good times just as much as the bad, is an important skill for family firms to develop.
- Organizational learning allows firms to embrace growth and change in productive ways.
- Reflection is seen as an organizational rather than an individual process

# Outlook

The chapters of this booklet illustrate the diversity and richness of the findings that the close collaboration of academics and family business practitioners has been able to generate. We believe very strongly in the model of bringing together the world of research and the world of practice. We hope that this booklet offers a small glimpse into the insights we are developing, and is a sign of our appreciation to the families who work together with us.

Transgenerational entrepreneurship is a multifaceted phenomenon; and there remains much yet to be discovered. We look forward to your continued participation as we embark on the next years of exploring transgenerational entrepreneurship together!

Thank you.

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While the authors listed below have provided the chapters of this booklet, it has, of course, to be mentioned that the STEP work in the respective countries has been carried out by larger country teams, whose other members are not listed here.

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