

# 1. Transgenerational entrepreneurship

**Timothy G. Habbershon, Mattias Nordqvist  
and Thomas M. Zellweger**

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## 1.1 INTRODUCTION

This book is about transgenerational entrepreneurship. This concept is introduced to the literature as a way to examine, understand and explain entrepreneurship – and especially corporate entrepreneurship – within the context of families and family businesses. We see entrepreneurship as the creation of new enterprising activities (Davidsson and Wiklund, 2001; Schumpeter, 1934), that is, innovation, new venture and strategic renewal (Sharma and Chrisman, 1999) leading to social and economic performance within firms. Following Schumpeter (1934) we consider that the creation of new streams of economic and social value through enterprising activities is crucial, not only for new firms but also for established firms, since entrepreneurship is not only important for creating but also for sustaining the firm's internal 'generative capability', defined as the capacity to renew a firm's operations through innovation in order to create new capabilities (Zahra, 2005).

In particular, we focus on established firms that are controlled by families and that have a vision of family influence beyond the founding generation (Chua et al., 1999). We argue that entrepreneurship is a key to performance and success over several generations in family firms. Our interest in multigenerational business families and family businesses is the main reason why we use the concept of transgenerational entrepreneurship. Following Gartner's (2001) view to adopt a dynamic view of entrepreneurship as a process that occurs over time, we formally define transgenerational entrepreneurship as 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'. As elaborated on further below, we see the entrepreneurial mindset as the attitudes, values and beliefs that orient a person or a group towards the pursuit of entrepreneurial activities (Lumpkin and Dess, 1996; Miller, 1983). By entrepreneurial capabilities

we mean the resources and capabilities that a given family possesses or has access to and that may either facilitate or constrain entrepreneurial activities (Habbershon et al., 2003; Sirmon and Hitt, 2003). New streams of entrepreneurial, financial and social values refer to a broader understanding of performance and value that reaches beyond the boundaries of only economic performance outcomes in the context of families and family firms. Finally, we adopt a longitudinal perspective by looking at how value is created not only for the current stakeholders, especially the family, but for the future and, in particular, future family generations.

The aim of this chapter is threefold. First, we present the concept of transgenerational entrepreneurship and discuss its theoretical foundations. Second, we develop and present a research framework for examining and understanding transgenerational entrepreneurship in the context of family and family businesses. Third, we introduce and summarize the different chapters of this book and explicate what part(s) of the framework each chapter addresses. In the next section we provide a more detailed justification of our research in light of some tensions and limitations in extant relevant research literature.

## 1.2 BACKGROUND AND MOTIVATION FOR THE RESEARCH PROJECT

This book presents some early research findings from the Global STEP Project founded in 2005 by Babson College and a group of European universities and business schools. From its inception, the founding institutions envisaged STEP to be a leading international collaborative research project that would bring together a large group of scholars interested in entrepreneurship within family business contexts. From the very beginning a leading idea behind STEP was to use research methods that allowed scholars to engage deeply in the phenomenon they were studying. Thus a priority within STEP is to interact with leaders and owners of family businesses. In addition to a yearly summit where families and scholars meet to exchange experiences, this means that researchers within STEP use a qualitative in-depth case research approach, as one important method to address our overall research questions. In the subsequent chapters of this book researchers from STEP present some findings from their qualitative case research. In Chapter 2 we present and explain the key facets of our qualitative approach.

Furthermore, the Global STEP Project is motivated by at least four distinct reasons. First, families represent not just the dominant form of business organization but provide and use resources for new enterprises

and entrepreneurial activities worldwide (Aldrich and Cliff, 2003). In these firms the family is a central stakeholder and its influence in the businesses they own and/or manage is thus of crucial relevance for both the firm's identity and its success. The family institution is commonly associated with specific values, interests and expectations that are different from other types of owners and managers (Lansberg, 1983; Zellweger and Nason, 2008). This assumption is, for instance, visible in the research adopting either an agency (Chrisman et al., 2004; Jensen and Meckling, 1976; Schulze et al., 2003a) or a stewardship perspective (Corbetta and Salvato, 2004; Eddleston et al., 2008a) to family businesses. Both views share, however, the observation that the family is a key constituent of this type of firm. Thus it is motivated to introduce the family as the level of analysis for entrepreneurial activities. By including the family as an additional level of analysis and by investigating the family's role in entrepreneurial activities, the STEP Project develops a more comprehensive approach to study the long-term success of family firms. In line with Davidsson and Wiklund (2001), we acknowledge that entrepreneurship occurs at and effects different societal levels simultaneously. As a result, Davidsson and Wiklund (2001) encourage research studies to consider micro and macro perspectives which incorporate multiple levels of analysis. Prior shifts in levels of analysis have given rise to new insights in the field of entrepreneurship. For example, the rise of portfolio entrepreneurship literature and the insights researchers and practitioners have derived from this research has been largely related to the shift of the level of analysis away from the firm level and towards the individual level (Scott and Rosa, 1996; Westhead and Wright, 1998). We take Birley and Westhead's (1994) considerations a step further by suggesting that there is a threat to underestimate value creation of (family) businesses if the family as a level of analysis is not taken into consideration. As elaborated on further below, introducing the family as the level of analysis enables us to look beyond a focal business and give more attention to the fact that many business families own and control several firms within a group or portfolio. Having said this, we hasten to add that the study of entrepreneurship in the context of families and family firms is distinct and different from the more traditional study of family businesses. Examining entrepreneurship within the context of families and their businesses, we are less interested in continuity, succession of ownership and leadership and stability, which has been dominant in the field of family business studies to date, as we are in change, growth and the creation of the new. In short, we are interested in families as engines for entrepreneurship.

Second, a corporate entrepreneurship study within the context of families and family businesses is motivated also because there is no agreement

in the literature as to whether family businesses represent a context where entrepreneurship flourishes or is hampered (for example, Naldi et al., 2007). Certain scholars have argued that the particular culture and power structure found in many family firms may have considerable influence on the extent to which entrepreneurial activities are encouraged or held back (Hall et al., 2001; Salvato, 2004; Schein, 1983; Zahra et al., 2004). Some scholars propose that family firms present a unique setting for entrepreneurship to flourish, for example, through stewardship behavior (Eddleston and Kellermanns, 2006) family to firm-unity (Eddleston et al., 2008a) or a long-term horizon (Zellweger, 2007). Other scholars note that family firms should invoke lower levels of entrepreneurship (Levinson, 1987; Miller, 1983; Morris, 1998; Schulze et al., 2003). Considering long-term orientation, an aspect often assigned to family firms, Barringer and Bluedorn (1999) proposed that a reliance on a long-term planning horizon runs counter to the proactive nature of the entrepreneurial process and that a long-term tenure is optimal for conservative and less entrepreneurial firms (Covin, 1991; Covin and Slevin, 1991). These studies suggest that family firms are endangered, for example, by strategic simplicity and inertia, conditions that cause some managers to overuse ready-made solutions without probing the assumptions underlying the decisions they make (Cabrera-Suarez et al., 2001; Miller, 1983; Morris, 1998). In this vein, research acknowledges the serious tensions that develop within the family firm between the need for change and stability in which entrepreneurship is seen as an antidote to stability and strategic simplicity (Schulze et al., 2003). Whereas the above research provides some preliminary findings and indications on entrepreneurship in the family firm context, we see the need to further substantiate our understanding of the family firm specific contextual factors and of the what, how and why of entrepreneurship in this specific context.

Third, family business research has undertaken considerable efforts to better understand continuity and succession as well as how existing business is perpetuated in businesses (for example, Le Breton-Miller et al., 2004). In contrast, the entrepreneurship literature has focused on the creation of new enterprises, especially through new ventures, innovation and renewal within organizations (Sharma and Chrisman, 1999; Zahra, 1995). However family firms do not face just one of these challenges. Rather, they need to find ways to create new streams of value within an existing long-term oriented organizational setting, through exploration of new ways of doing things and at the same time through exploitation of existing products, service or organizational processes. Therefore we argue in line with Zahra and Sharma (2004) that there is a need for a new theoretical foundation that is able to capture and explain how families bring new

streams of value to their business activities to survive and prosper across many generations. In other words, rather than examining the transfer of ownership and leadership in an existing organization from one generation to the next, we shift the focus to the use and development of entrepreneurial mindsets and capabilities across time and generations which can be deployed in existing but also new activities. What we call transgenerational entrepreneurship is about how families create new streams of value across generations – not simply how to grow and pass on a business. Since this approach is new to the literature, as researchers we face significant challenges to investigate the actual mindsets and capabilities of families involved in launching and fostering new entrepreneurial initiatives, just as the creation of financial and social value across generations.

Fourth, whereas most research in the entrepreneurship and family business context has traditionally used a descriptive approach, or single respondent and cross-sectional data analysis, we see a need for a longitudinal and multiple respondent research approach that draws upon both qualitative and quantitative methods. Given that we are striving to analyse entrepreneurial behavior and capabilities of business families in depth and across time, we need by definition to apply a multi-respondent and longitudinal research design that can benefit from the strengths of more than one research tradition. We develop this argument in greater detail in Chapter 2.

Introducing the concept of transgenerational entrepreneurship and building the research framework that we introduce below is our way of addressing these tensions and limitations in the extant literature on entrepreneurship and family businesses. There are other scholars who have approached this challenge in the literature on entrepreneurship within the context of families and family businesses. In the next section we briefly review a selection of these studies.

### 1.3 ENTREPRENEURSHIP IN THE CONTEXT OF THE FAMILY FIRM – A BRIEF LITERATURE REVIEW

Early academic literature viewed family business and entrepreneurship as separate but overlapping domains of interest, and noted that there was no integrated theory that explained the relationship between family and entrepreneurship (Dyer and Handler, 1994; Hoy and Verser, 1994). In what could be labeled an ‘integrative approach’, Poza (1988) proposed practices that support interpreneurship in the family firm context. Coining the concept of interpreneurship, Poza (1988) wanted to draw attention

to how family members from different generations could contribute to growth and renewal of a family business. Brockhaus (1994) proposed a parallel development of entrepreneurship and family business research, thereby suggesting that the two need to be coordinated, but kept separate. In many ways, the entrepreneurship and family business perspectives are based upon differing and in certain ways conflicting assumptions. Whereas entrepreneurship has its roots in the context of younger and smaller or mid-sized firms, family business scholars have looked at older and often larger firms. Whereas entrepreneurship has stressed resource accumulation, family business researchers have particularly investigated resource shedding and reconfiguration (for example, Sharma and Manikuttu, 2005; Sirmon et al., 2007).

In their attempts to combine the entrepreneurship and family business perspective, most authors took a common denominator approach. The common denominator attributed to both family business and entrepreneurship covers topics and issues that the two would share. This approach was aimed at finding common subjects such as small business management, entrepreneurial couples, lifestyle start-ups, founders and founder's culture, transition and succession, and some corporate entrepreneurship themes (Dyer and Handler, 1994; Hoy and Verser, 1994). However the common denominator approach is limited in terms of its explicative power. If the goal is to study family businesses through the lens of entrepreneurship, the common denominator entrepreneurship will define what actually can and will be studied in the family firm context. However the specific family related aspects, which are not covered by the individual and organizational aspects represented within entrepreneurship (entrepreneurship being the common denominator), cannot be studied with this approach. Calls by other researchers to build an integrated approach towards studying family firms are abundant. Chrisman et al. (2003) state that if theories of entrepreneurship ignore family involvement, they might miss critical family related factors in new venture creation. Similarly, they consider it to be difficult to lay claim to developing a theory of entrepreneurship if we do not look at organizations in all of their diversity, including family firms. Habbershon and Pistrui (2002) propose the notion of enterprising families to create a true nexus between business and family. They argue for shifting the focus of corporate entrepreneurship studies from the conventional firm level of analysis to the level of the family or ownership group. Enterprising families are seen as business families that strive for transgenerational entrepreneurship and long-term wealth creation through the creation of new ventures, innovation and strategic renewal (Habbershon and Pistrui, 2002). Airing a similar trust in the capacity of families to drive both the processes and outcomes of

entrepreneurship, Rogoff and Heck (2003, p. 559) suggest recognizing the 'family as the oxygen that feeds the fire of entrepreneurship'.

Ucbasaran et al. (2001) propose that the focus of entrepreneurial research needs to include the family firm as an organizational form while Zahra and Sharma (2004) propose that family business research needs to be an integral part of the entrepreneurship literature. Aldrich and Cliff (2003) argue that families have a pervasive effect on entrepreneurship and propose a 'family embeddedness' perspective on entrepreneurial activities.

Recent literature examining the impact of family related variables on entrepreneurship delivered the first insights into our topic. For instance, Hall et al. (2001) and Zahra et al. (2004) observe the crucial role of the family influenced organizational culture in either promoting or inhibiting corporate entrepreneurship in family businesses. Kellermanns and Eddleston (2006) find that the willingness of family members to change is positively related to corporate entrepreneurship. Similarly in the same study it is demonstrated that strategic planning plays an important role on generational effects in family firms: when strategic planning is taken into account, family firms with greater generational involvement appear to experience greater corporate entrepreneurship. Naldi et al. (2007) examine risk taking as a dimension of entrepreneurship in established family businesses, and Salvato (2004) relates governance and organizational characteristics to the amount of corporate entrepreneurship in different types of family businesses. Furthermore, it has been proposed that family firms present a unique setting for entrepreneurship to flourish due to stewardship behavior, represented by harmonious (family) relations (Eddleston et al., 2008) or due to a long-term horizon (Zellweger, 2007).

The diversity of issues studied at the intersection between entrepreneurship and family business raises the question of whether an attempt towards an integrated theory of family business and entrepreneurship actually makes sense. Following Gartner (2001) we question whether a single theory can encompass such diverse issues as, for example, creation of a new firm, raising capital, succession planning and family conflicts. We think that these topics need to have different theoretical underpinnings. Therefore we revisited the calls by researchers to develop an integrative perspective of entrepreneurship and family business by asking ourselves what factors (variables, constructs, concepts) logically should be considered as part of the explanation of the phenomenon of interest, that is, entrepreneurship in the context of families and family firms. These factors need to allow a comprehensive understanding of the phenomenon, but at the same time should be parsimonious enough to capture the main points of the issue without overloading the arguments.

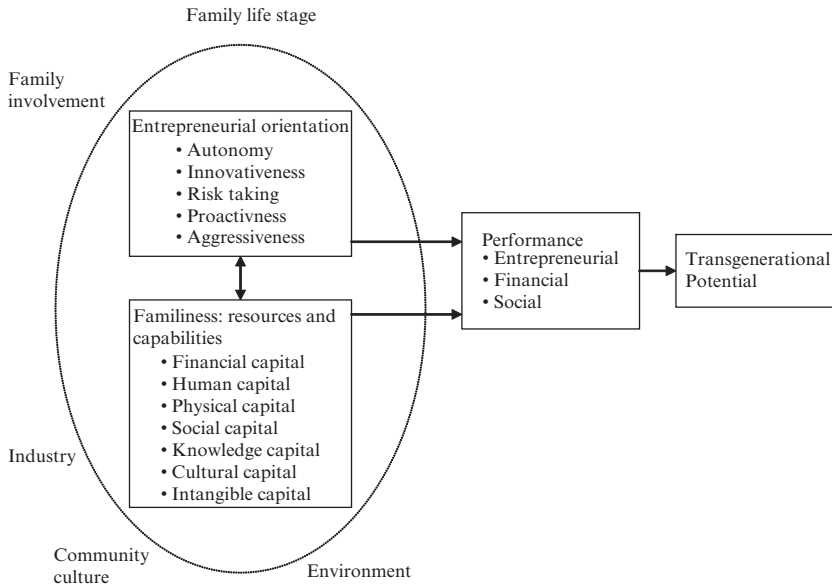
Building on the aforementioned literature review and considering

Whetten's (1989) arguments on the parsimony and completeness of a theoretical contribution we would like to think of the transgenerational entrepreneurship approach as an attempt to address the true nexus between entrepreneurship theory and family business studies as an appropriate way to examine and understand the role and influence of the family in reaching entrepreneurial, financial and social performance, which assures generation-spanning business activity.

To address this nexus of entrepreneurship theory and family business research we propose that transgenerational entrepreneurship comprises five key components: (1) the particular focus on the family as the unit of analysis, thereby extending the scope of analysis beyond the individual and the organizational level, (2) the entrepreneurial mindset of the family, (3) the family's influence on resource stocks and usage, (4) contextual factors like industry, community culture, family life stage and family involvement and (5) performance and value creation measured in terms of entrepreneurial, financial and social performance as antecedents to transgenerational potential, understood as the likelihood for transgenerational success of the enterprising family. To sum up and integrate, we propose the following research framework to study our phenomenon of interest, which is entrepreneurship in the context of families and family firms (Figure 1.1).

#### 1.4 FAMILY AS THE LEVEL OF ANALYSIS

Gartner (2001) notes that 'important insights about entrepreneurship can be gained when researchers are able to conduct studies that are multi-level in nature' (p. 32). Despite the fact that researchers have proposed different modes of exploitation (Shane and Venkataraman, 2000) the challenge persists. Whereas Low and MacMillan (1988) propose five levels of analysis (individual, group, organization, industry and society), the family has not yet been considered as a distinct level of analysis despite the fact that it is the discriminatory feature of family firms. We propose that research about entrepreneurship within the context of families and their businesses should particularly investigate the family as a unit of analysis, alongside to the organization and the individual. Thereby the family needs to be seen as a key constituent in this type of firm, beyond a governance and a social institution (Davidsson and Wiklund, 2001; Zellweger and Nason, 2008). We follow Habbershon and Pistrui (2002) who proposed that researchers should envisage the family group as a key level of analysis when examining entrepreneurship, and Carter and Ram (2003) who argued that the family household is a relevant unit of analysis for entrepreneurship studies.



*Note:* This framework has been developed jointly between researchers from the European STEP partner schools during the period 2005–08.

*Figure 1.1: Research framework for transgenerational entrepreneurship*

One of the major problems related to solely using the firm as a level of analysis in the context of family firms is the implicit assumption that a family firm consists only of a single business entity. This oversimplification of the family business leads to a discourse about whether that specific firm either succeeds or fails in terms of remaining within family control. This perspective, however, neglects to account for family firms who control multiple firms or sell a firm, and maintain the assets to redeploy them into another business unit(s) or a newly founded or acquired firm.

In fact, according to Kellermanns (2005) and Sharma and Manikuttu (2005), acquisitions and in particular (timely) divestments of resources are essential for sustaining the competitive advantage and longevity of family firms. Sharma and Manikuttu (2005, p. 295) contend 'for firms desirous of longevity as family firms of interest to us, changes in the environment require strategic responses on the part of a firm (such as readjustment of the business portfolio and divestment of unproductive resources), so as to enable regeneration and renewal'. This means that divestment or closure of a business may actually be the opposite of failure, but necessary to

sustain a competitive advantage and ensure longevity for a family business or a business family. In other words, whereas the 'firm' may not survive, other family related entrepreneurial activities may prosper and assure the longevity of the business family.

As a consequence from introducing the family as a level of analysis, it is further required to revisit the definition of success of a succession. If a family firm is sold or closed down, succession defined in more traditional terms will fail. However the proceedings from the sale may be redeployed in new and more value generating activities, giving family members new space for development. Similarly, a family member may choose not to take over the baton in the main company but start some new business activity by borrowing human, financial and social capital from the family, inside or outside the umbrella of a family (holding) company (Arregle et al., 2007). Consequently, applying the family level of analysis may shift how we define success or failure of family business succession.

Also, shifting to the family level of analysis may result in new insights about firm level phenomena that are not sufficiently explained by current theories, such as portfolio entrepreneurship. For example, Carter and Ram (2003, p. 372) find that 'an analysis of the wider literature suggests that for many small firms, family circumstances may influence both the decision to engage in portfolio strategies and also the processes which are used in the portfolio approach'. A growing literature around family controlled portfolio entrepreneurship challenges the sole business view (Carter and Ram, 2003; Scott and Rosa, 1996; Westhead and Wright, 1998). Accordingly, switching to the family level of analysis will provide new insights into portfolio strategies of firms.

Consequently, such a research approach that shifts to the family level of analysis touches upon the very definition of a family business. It is essential to consider the many changes in ownership, board and management structure occurring in all firms over time, which can impact on whether a firm is deemed 'family' or 'non-family'. For example, the transition from a sole family owner-manager to a non-family CEO with continued family ownership may mean that this firm loses its 'family business' title under the strictest definitions (Chua et al., 1999). Similarly, taking a firm public could mean 'failure' in terms of maintaining the family business under many definitions, but the family may retain control of that firm through voting rights or other control mechanisms (Faccio and Lang, 2002). However such a strategic move may greatly increase family wealth, business value and opportunity for further value creation with the capital influx.

Finally, shifting the level of analysis implicates reassessing the macroeconomic relevance of business families and family businesses. Nowadays

there is wide support beyond the family business literature that family firms make up the utmost part of all firms in developed countries (Shanker and Astrachan, 1996). However, beyond the impressive absolute and relative numbers of family firms throughout the world, there is increasing evidence that the families who are in control of these firms need to be considered as drivers and enablers of new entrepreneurial activity in their regional and national context. For example, preliminary research using the data from the Global Entrepreneurship Monitor (Volery et al., 2007) presents preliminary evidence for the plural forms of support business families provide in starting up new businesses, for instance, in terms of seed financing granted to family and non-family members. Accordingly, the true economic relevance of business families may be underestimated by simply measuring the number of family firms existing or surviving across time. With a shift of the level of analysis to the business family one may even find stronger evidence for the pivotal role of family related business activity.

## 1.5 ENTREPRENEURIAL ORIENTATION

To address the entrepreneurial mindset part of our model we draw upon the entrepreneurial orientation construct from the literature on corporate entrepreneurship (Lumpkin and Dess, 1996). As noted above, we view transgenerational entrepreneurship as essentially about corporate entrepreneurship within the context of families and their businesses. Entrepreneurial mindsets are the attitudes, values and beliefs that orient a person or a group towards pursuing entrepreneurial activities. This basically refers to an inclination, or spirit, of enterprising that favors growth and leads organizations to investigate opportunity when expansion is neither pressing nor particularly obvious (Penrose, 1959). As such we clearly differentiate our understanding of entrepreneurial orientation (EO) as a measure for entrepreneurial mindsets and attitudes from actual entrepreneurial performance, which is measured in terms of the sum of an organization's innovation, renewal and venturing efforts (Dess and Lumpkin, 2005; Zahra, 1995).

Corporate entrepreneurship is clearly a multidimensional concept and is best seen as an umbrella term for different aspects, levels or stages of activities and processes through which established organizations act entrepreneurially, as well as the outcomes of such activities and processes. Entrepreneurial organizations tend to engage in strategy making characterized by an active stance in pursuing opportunities, taking risks and innovation (Dess et al., 1997). This has been the focus of attention

for scholars drawing on the construct of EO. Viewing entrepreneurship as a firm-level phenomenon, Miller (1983, p. 771) views an entrepreneurial firm as ‘one that engages in product market innovation, undertakes somewhat risky ventures, and is first to come up with “proactive” innovations, beating competitors to the punch’. This definition singles out three dimensions, risk taking, innovativeness and proactiveness as the core dimensions of EO. These three dimensions have been widely adopted in subsequent, empirical and conceptual research on EO (for example, Covin and Slevin, 1989, 1991; Wiklund, 1998).

As a concept, EO is similar to Stevenson and Jarillo’s (1990) notion of entrepreneurial management. Building on Miller (1983) and Stevenson and Jarillo (1990), Lumpkin and Dess (1996) provide a useful overview and integration of the EO literature. They define EO as ‘the processes, practices, and decision-making activities that lead to new entry’ where new entry is ‘the act of launching a new venture’ (Lumpkin and Dess, 1996, p. 136). They also present five dimensions of EO compared to the three dimensions originated in Miller (1983) and taken further by Covin and Slevin (1989, 1991). The five dimensions determining if a firm has an EO is the extent to which it is characterized by: proactiveness, risk taking, innovativeness, autonomy and competitive aggressiveness. We now briefly discuss these dimensions.

### **Proactiveness**

Proactiveness refers to how a firm takes strategic initiatives by anticipating and pursuing new opportunities. It is defined as ‘acting in anticipation of future problems, needs of changes’. This means a forward-looking perspective and search for new opportunities that are ‘accompanied by innovative or new venture activity’. There is an important difference between proactiveness and competitive aggressiveness. The former refers to how a firm relates to market opportunities in the process of new entry whereas the latter refers to how firms ‘relate to competitors, that is, how firms respond to trends and demands that already exist in the marketplace’ (Lumpkin and Dess, 1996, p. 147).

### **Risk Taking**

Firms with an EO are often said to take risks, where heavy debt and large resource commitments in relation to a new entry are examples of risky behavior. Stated formally, risk taking refers to ‘the degree to which managers are willing to make large and risky resource commitments – i.e., those which have a reasonable change of costly failures’ (Miller and

Friesen, 1978, p.932). Risk-taking firms show a tendency to ‘take bold actions such as venturing into unknown new markets’ (Lumpkin and Dess, 2001, p.431) without certain knowledge of probable outcomes (Covin and Slevin, 1991). Previous research on the relationship between risk taking and outcome variables such as growth and performance gives inconclusive results (Rauch et al., 2009).

### **Innovativeness**

Innovativeness refers to ‘a firm’s tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services, or technological processes’ (Lumpkin and Dess, 1996, p.142). Innovativeness is crucial to maintain a given firm’s viability because it is a key source of the new ideas that lead to product introductions, service improvements and managerial practices that advance and sustain a company (Lumpkin et al., 2009). There is typically a continuum of innovativeness, both regarding the scope and pace of innovation in products, markets and technologies. Being innovative in terms of new products, process and attitudes has been found to increase growth of firms (Moreno and Casillas, 2008; Rauch et al., 2009). Innovativeness is characterized by processes where existing market structures are disrupted by the entry of new goods and services that may render previous goods and services obsolete (Schumpeter, 1934).

### **Autonomy**

Autonomy is about the freedom granting individuals inside an organization to be creative, to push for ideas and to change current ways of doing things. Lumpkin and Dess (1996, p.140) define autonomy as ‘the independent action of an individual or a team in bringing forth an idea or a vision and carrying it through to completion’. For autonomy to be established in a firm flexible organizational structures, open communication and low power distance is important. Individuals and teams must have the ability to make decisions and take actions without being hindered by the organizational constraints or strategic norms that often impede progress (Lumpkin et al., 2009). Burgelman (1983) has shown that a certain amount of autonomous behavior by individuals and teams is needed for new venture creation within established firms. Autonomy can also refer to an external autonomy in the sense that individuals and teams are independent in relation to external constituents such as banks, financial markets, suppliers and customers. External autonomy refers to a greater sense of controlling one’s destiny (Nordqvist et al., 2008).

### **Competitive Aggressiveness**

Competitive aggressiveness refers to ‘a firm’s propensity to directly and intensively challenge its competitors to achieve entry or improve position, that is, to outperform industry rivals in the market place’ (Lumpkin and Dess, 1996, p. 148). While proactiveness is a response to opportunities competitive aggressiveness is a response to threats (Lumpkin and Dess, 2001). Competitive aggressiveness can thus be reactive. This means, for instance, a new entry that is an imitation of an existing product or service would be considered entrepreneurial if the move implies an aggressive ‘head-to-head’ confrontation on the market. Competitive aggressiveness also embraces non-traditional ways of competing in an industry, such as new ways of distributing or marketing products.

The literature tends to be consistent in suggesting that the five dimensions of EO are likely to be separate but related (for example, Lumpkin and Dess, 1996; Wiklund and Shepherd, 2003). This means that firms can vary in terms of how proactive, risk taking, innovative, autonomous and competitively aggressive they are. For example, a particular firm may be very competitively aggressive, but not take many risks, but still be viewed as having an EO. That is, firms can vary in the degree of each dimension so that they are not equally entrepreneurial across all five dimensions. In addition, some firms can be cautious and risk averse under some circumstances and take risks in others (Brockhaus, 1980). The five dimensions are, however, suggested to be positively correlated (Lumpkin and Dess, 1996), which also has been validated empirically (Rauch et al., 2009).

### **Entrepreneurial Orientation in the Family Firm Context**

As outlined above, we face equivocal findings in whether family firms exhibit a context prolific or unproductive for corporate entrepreneurship to occur. Reaching beyond the diversity of findings at the level of entrepreneurship or entrepreneurial orientation in family firms, we expect that EO has specific features in family firms.

First, EO uses the business as the level of analysis. The family as the critical constituent of any family firm remains largely neglected. We argue that the importance of family and family involvement for this type of business calls for an investigation of the entrepreneurial mindset of the business family. Martin and Lumpkin (2003) contrast EO with what they call family orientation (FO) and suggest that an increasing FO will overtake the EO as the family firm is passed on through generations. Their FO dimensions are interdependency, loyalty, security, stability and tradition (Lumpkin et al., 2008). Martin and Lumpkin (2003) find decreasing levels

of EO in terms of autonomy, risk taking and competitive aggressiveness as later generations are involved in the family firm in their US sample. They conclude that while founding generations are more motivated by entrepreneurial concerns, these become replaced with family concerns and an increasing FO over time and generations that appears to be in conflict with EO. Martin and Lumpkin (2003) thus argue for a tradeoff view between EO and FO where both postures cannot exist simultaneously. This approach can be challenged. By shifting the level of analysis in line with the argument by Habbershon and Pistrui (2002) we can, for example, think of a combined EO and FO measure that addresses the EO of the family unit rather than the one of the business unit. Such a family entrepreneurial orientation (FEO) measure would more directly address EO in the family context and go after the essence of family influence on EO. Investigating FEO would, for instance, increase our understanding of different types of business families, in addition to different types of family businesses. Keeping the FO scale, additional dimensions that would be relevant to include are persistence, efficiency and reputation concerns since they are typical to many family firms and have potentially a positive impact on entrepreneurial performance.

Second, we may need to introduce new concepts to our framework in order to better understand our observations of EO in the family context. Nordqvist et al. (2008), for instance, draw on the five dimensions of EO and integrate the concept of duality to interpret what characterizes entrepreneurship in family firms over time, and how and why certain dimensions of entrepreneurship are more present and important than others for performance. They identify three dualities related to the dimensions of EO: the historical/new path duality, the independence/dependence duality and the formality/informality duality. Based on in-depth case research, they propose that the risk-taking and competitive aggressiveness dimensions of EO are less important to family firms. Conversely, they suggest that autonomy, innovativeness and proactiveness are more present dimensions of EO and have greater meaning for long-term entrepreneurial performance. This supports the assertion that EO may occur in different combinations depending on the context and that the effectiveness of EO is related to the contexts in which organizational activity takes place (Lumpkin, 2006).

Third, the definitions of several underlying constructs of EO might need to be revisited when applying them to the family business context. Risk taking is a key feature of entrepreneurship and the family's risk profile can play a central role for EO in family firms (Naldi et al., 2007; Zahra, 2005). Risk taking might need to be further specified given that families face a high financial risk in terms of committed and undiversified personal funds.

However, in terms of control risk, measured by leverage levels, family firms are rather risk averse. Recent studies on reference point dependent risk behavior (for example, Gomez-Mejia et al., 2007; Zellweger et al., 2008) provide a new picture of risk taking. Similarly, autonomy might be diverse when differentiating between internal (if decision making is bounded by predetermined processes) and external autonomy (in terms of independence from external stakeholders) (Nordqvist et al., 2008). A family firm can well display predetermined structures and processes internally and hence low internal autonomy, but high independence towards external stakeholders.

Fourth, EO literature assumes that the more entrepreneurial a firm is across all these dimensions, the more successful it will be in the long run. However we might, for instance, see that firms that are successful in the long run display lower levels of certain EO dimensions (for example, competitive aggressiveness and risk taking) since they have detected or actively created market niches in which they are unrivaled. Whereas high levels of EO across all dimensions might be appropriate when launching and growing a firm, such an EO pattern might not be needed or sustainable over several generations. This argument is forcefully advanced in Chapter 8 by Zellweger et al. in this volume. They argue that high degrees of entrepreneurial performance may only be necessary in specific times to regenerate and grow the business. To secure transgenerational potential and longevity in family firms, a continuously high EO in all of its five dimensions may not be optimal (Zellweger et al., 2008).

## 1.6 THE RESOURCE-BASED VIEW

We see the resource-based view (RBV) as the second underlying theory for our transgenerational entrepreneurship framework. The RBV holds that businesses with unique bundles of resources can create strategies that lead to a sustained competitive advantage, if they form the strategies based on resources that are valuable, rare, imperfectly imitable and non-substitutable (Barney, 1986, 1991; Wernerfelt, 1984). A central thesis in RBV is that the resource profile of a particular organization drives the success of performance outcomes of that organization (Greene and Brown, 1997). In the RBV resources are viewed as the fundamental units of value creation (Mathews, 2002). Being an elegant conceptual framework, RBV has been a popular base for theorizing in many areas of strategy and management research, including human resource management, entrepreneurship and international business (Barney et al., 2001) while empirical explorations and testing of the RBV are still very rare (Cool et

al., 2002). There has been a general progression in the RBV from an interest in which resources might be valuable to an examination of how these resources are managed and leveraged. The underlying idea is that managing, in other words using, deploying and reconfiguring, resources is the key to sustainable competitive advantage (Mahoney, 1995).

Recent years have seen more scholars drawing on the RBV-related fields of entrepreneurship (for example, Alvarez and Barney, 2004) and family firms (for example, Habbershon and Williams, 1999; Sirmon and Hitt, 2003). In the entrepreneurship literature some have argued that the actual processes associated with the ability to seek, capture and exploit opportunities can be a resource in its own right (Alvarez and Busenitz, 2001). In family business research the interaction between the family and the business is argued to give rise to unusually complex and difficult to imitate resources (Cabrera-Suarez et al., 2001; Chrisman et al., 2005; Habbershon and Williams, 1999; Sirmon and Hitt, 2003). Habbershon and Williams (1999) use the RBV to coin the notion of 'familiness' and to argue that complex and unique resources and family involvement in a firm's strategic business activities can generate a competitive advantage. Family influence can thus become the root to heterogeneity since it leads to idiosyncrasies of the individual family firms. These family driven idiosyncrasies become part of the competitive advantage of a firm when they are valuable and inimitable by other firms. The value and inimitability of these idiosyncratic resources and capabilities is due to their socially complex, path dependent and often tacit nature.

However not all family influenced resources enhance performance. Rather 'some family firm attributes provide advantages in the resource management process, while others limit this ability' (Sirmon and Hitt, 2003, p. 340). Therefore Habbershon et al. (2003) suggest that family involvement can either drive or constrain performance depending on the nature of the resources, as well as the particular business activity in focus. In other words, a specific family influenced resource can either represent distinctive familiness ('f+') for influences that support an advantage to emerge, or restrictive familiness ('f-') for influences that constrain and lead to a disadvantage, and 'f0' for family influences that are neutral in relation to desired outcomes (Habbershon et al., 2003). The notion of familiness in relation to the RBV thus aims to capture the source of what is idiosyncratic in the resource profile of each family firm and provides a conceptual path for examining the way in which family influence may lead to a business creating heterogeneous performance outcomes.

There has been a great deal of confusion on the appropriate usage of the term familiness. The term has originally been defined as the unique firm level bundle of resources and capabilities resulting from family

involvement (Habbershon et al., 2003). In recent publications authors have undertaken significant efforts to clarify the nature and the domain of the construct (Pearson et al., 2008; Sharma, 2008). However, due to the still fragmentary and incomplete knowledge about the concept, we see a need to clarify our understanding of familiness, thereby contributing to the concept's nomological net (Pearson et al., 2008).

In line with the more general RBV we understand familiness as a concept that addresses both the 'what' and the 'how' of family involvement in firms. On the side of the content, hence the 'what' dimension, familiness informs about the type and amount of resource stocks available within family influenced firms. Scholars have particularly underlined the relevance of particular resources in the family firm context, such as social capital (Pearson et al., 2008; Sharma, 2008), human capital (Puhakka, 2002), financial capital (Sirmon and Hitt, 2003) and physical capital (Miller and Le Breton-Miller, 2005; Steier, 2007). In addition, researchers have investigated the explicit and in particular the implicit knowledge resources embedded in the family business system (Carney, 2005; Sirmon and Hitt, 2003), which can be particularly strong and critical for these firms due to the path-dependent development and their dependence on governance and ownership structures. Furthermore, our research shows that family firms often exhibit a particular corporate culture that can be influenced by the family's sustained presence in the firm, often referring back to the attitudes and beliefs of the founders of these companies (Poutziouris et al., 1997). Finally, we see intangible resources and in particular reputation as a further key resource in this type of firm (Dyer and Whetten, 2006). Several scholars have investigated the performance implications of personal, family and corporate reputation, but there are equivocal findings they report about the reputation-performance link (for example, Anderson et al., 2003; Naldi et al., 2008; Zellweger and Kellermanns, 2008). As such, we consider family firms to have unique social, human, financial, physical, knowledge, cultural and intangible resource stocks due to family involvement in the firm. Here we see the necessity to apply a trans-unit of analysis perspective since part of the resources at the firm and family level are provided by either family or firm system. As Sharma (2008) correctly points out, we need to consider capital flows between family and firm system to understand the competitive advantages or disadvantages of family firms. In such a trans-unit of analysis perspective, family and firm can both serve as lenders and borrowers of resource stocks.

Whereas recent developments in family business theory have provided some insights into the relevance of different resource stocks, the RBV has traditionally also stressed the relevance of resource management and leveraging as outlined above. Accordingly, the second dimension of our

understanding of familiness, the ‘how’ dimension, relates to the ways in which owners and managers of family firms are actually able, or competent, to bundle and leverage their resource bases to create competitive advantages (Sirmon and Hitt, 2003). In this regard, Naldi et al. (2008) stress that family involvement in strategy-making processes may be seen as a moderator that impacts on whether intangible resources such as knowledge and reputation can be deployed at their full potential to create financial performance. Adding to this contingency perspective, Kellermanns (2005) and Sharma and Manikuttu (2005) stress that family firms might be biased by the personal preferences of family members when it comes to resource adding and shedding. Eddleston et al. (2008b) show that family firms can benefit from emphasizing the positive aspects of kinship and from developing innovative capacities. As such, they demonstrate that not only do firm-specific resources contribute to family firm performance, but also that family relationships based on reciprocal altruism, which could be seen as a family firm-specific form of bonding social capital, can be a source of competitive advantage for a family firm.

In summary, combining these two perspectives in the transgenerational entrepreneurship framework, we therefore consider the relevance of studying family influence on both resource stocks and usage. As such, we stress family influence on resources, and do not see the family as a resource on its own. Also we do not see familiness as a pure firm-level phenomenon, as originally defined by Habbershon et al. (2003), but as a trans-unit of analysis phenomenon, due to the interrelation of the family and the firm in resource availability and usage.

## 1.7 THE INTERRELATIONSHIP BETWEEN RESOURCES AND ENTREPRENEURIAL ORIENTATION

Traditionally, entrepreneurship scholars have argued that while the RBV focuses on heterogeneity of resources, entrepreneurship theory focuses on the heterogeneity of beliefs about the value of these resources. Hence the focus on heterogeneity in firms’ strategic profiles can be seen as a common denominator between the RBV and entrepreneurship. Thus combining the RBV with an entrepreneurship framework such as EO may, we argue, allow researchers to address the essence of the question why some firms stay competitive and continue to grow while other firm decline or even become obsolete.

In line with Habbershon (2006), we may argue that the interactions between the family, its firm and individuals in the family and/or firm create

resources that either promote or inhibit entrepreneurial orientation. It is conceivable, for example, that a family influenced social network might foster entrepreneurial behavior. A certain leadership style as a resource may very well facilitate EO in one generation, while constraining it in another. Another family influenced resource that may affect EO is governance. Family firms are often assumed to have rather informal governance and organizational structures with quick, sometimes intuitive, decision making (Carney, 2005; Hall et al., 2006). These characteristics, Lumpkin and Dess (1996) argue, promote EO. Poza (1988), however, looks at 'interpreneurship', defined as intergenerational entrepreneurial activities in family firms and argues that formalized governance and especially the presence of non-family board members are conducive to promote continued growth over the long term. Brunninge and Nordqvist (2004) do not find empirical support for the hypothesis that non-family board members promote corporate entrepreneurship. Other examples of family influenced resources that have been argued to have an impact on the entrepreneurial capacity of family firms is organizational culture (Hall et al., 2001; Zahra et al., 2004), knowledge (Chirico, 2008) and trust (Steier, 2003). Wiklund and Shepherd (2003) stress the role of intangible resources for entrepreneurial activities and orientation. Furthermore, kinship ties within social capital can facilitate opportunity recognition and exploitation (Aldrich and Cliff, 2003). Finally, Eddleston et al. (2008a) found that family to firm unity moderates the relationships between human capital and corporate entrepreneurship, whereby a lack of human capital can be offset by higher levels of family unity. Given these considerations, some of the chapters in this book are explicitly dedicated to further explore these specific resource aspects of entrepreneurial orientation in the family and the family firm context.

Despite some noteworthy exceptions presented above, we consider that there is still a dearth of research untangling the relationship between family influenced resources and the entrepreneurial orientation of firms. In particular, we challenge the unidirectional nature of the relationship, where (prior) resource allocations should serve as an indicator of an entrepreneurial posture (Lyon et al., 2000). Also the opposite way is conceivable: for example, if a firm displays high levels of autonomy towards internal and external stakeholders, it will most likely experience lower levels of social capital. However the reliance on internal processes and ways of doing things might, in contrast, be prolific to develop tacit knowledge. Furthermore, being aggressive towards competitors might impact reputational resources, both at the family and the firm level. Moreover, an innovative posture might not only be positively impacted by the firm's human capital and knowledge-based resources. Innovativeness might also

fuel the levels of human capital and knowledge-based resources through learning effects.

Accordingly, we see entrepreneurial postures and resources as inter-related, the first one representing the attitudes to take an active stance in doing things, and the latter representing the means to undertake the required actions. We therefore see both as being important drivers of a firm's performance and value creation potential and, ultimately, success across several generations. This view is driven by the insight that resources and entrepreneurial orientation taken on their own are necessary but not sufficient conditions for long-term success. Without resources entrepreneurial orientation lacks the means to be realized. Thus without an entrepreneurial posture resources are unexploited, become slack and lack rejuvenation. Our transgenerational perspective proposes that only the combination of resources and entrepreneurial orientation will carry family firms and business families into a successful future.

## 1.8 CONTEXTUAL FACTORS

An important aspect of theory development is setting the boundaries for its application and accounting for the contextual factors in which the theory holds or is investigated. Lumpkin and Dess (1996) argue that the strength of the five different dimensions of EO may differ depending on the characteristics of the firm or types of firm. Besides industry, they suggest size, ownership and age as other possible contextual factors that may impact EO in a particular firm. But they also underline that little empirical research has so far been done to untangle these relationships. Also there have been arguments within the EO literature to further explore the EO – performance relationships (Dess et al., 1997; Zahra, 1993). Lumpkin and Dess (1996) suggest that organizational factors such as size, structure, strategy, strategy-making processes, firm resources and culture and top management team characteristics should moderate the relationship. Furthermore, Lumpkin and Dess (1996) argue that environmental factors such as dynamism, munificence, complexity and industry characteristics might interfere.

Beyond these arguments, Lyon et al. (2000) suggest that time might be a further contextual issue in the relationship between EO and performance, since entrepreneurial attitudes and initiatives often do not create immediate performance effects. A recent meta-analysis explored the extent to which the different dimensions of EO are positively or negatively related to performance (Rauch et al., 2009). Broadly speaking, the literature tends to be consistent in suggesting that firms with higher EO levels are more

likely to do well in traditional performance measures, such as growth and profitability.

In a similar way, within the RBV scholars have called for more attention to be paid to the boundaries of the theoretical concept (Priem and Butler, 2001) and to the contexts within which particular resources were determined to be more or less valuable (Miller and Shamsie, 1996). Again industry is seen as such a contextual factor, but also community culture (Hofstede, 1991) and the temporal orientation (Powell, 1992).

Following these calls, we introduce a series of contextual factors within the transgenerational entrepreneurship research framework that are intended to capture the variance in the context and to set the boundaries of our research (Whetten, 1989). Accordingly, in the STEP Project we include contextual factors that have been identified in previous studies of EO and the RBV, such as industry, community culture and the environment (captured through dynamism, munificence and complexity). Furthermore, we also include contextual factors that we have observed in the first phases of the qualitative case research such as family life stage and family involvement. By family life stage we mean the number of generations the family has been in control of the specific firm. Partly in line with Martin and Lumpkin (2003) we see that business families may differ in their resources and entrepreneurial posture depending on the generation they are in. In an attempt to account for generational differences, Cruz and Nordqvist (2008) study how the determinants of proactiveness, risk taking and innovativeness differ depending on the family generation in charge of the business. They argue that while the founders drive EO to a great extent in the first generation, EO is more subject to managers' interpretations of the competitive environment in the second generation. In the third generation and beyond, access to non-family resources is increasingly important to maintain an EO in family firms (Cruz and Nordqvist, 2008).

We investigate family involvement, in particular through the family's involvement in equity, management and, if available, governance board. Our cases show very heterogeneous ways in which families are involved in their firms, as is evident in the studies forming the chapters in this book.

Capturing the temporal dimension that has been stressed is an important contextual factor both in EO and RBV theory. We investigate the evolution of family involvement across time, but also the evolution of the portfolio of the businesses making part of the family business group. Furthermore, we are investigating the entrepreneurial performance of the family firms under investigation across time. As such we are able, at least partly, to overcome the limitations related to a cross-sectional design of EO and RBV studies.

## 1.9 PERFORMANCE

Within our framework we expect that performance is a necessary antecedent for successful business activity that spans generations. Due to numerous assertions that family firms strive for multiple performance dimensions (Chrisman et al., 2005; Zellweger and Nason, 2008), we differentiate between three types of performance outcomes: entrepreneurial, financial and social performance outcomes. As such we see performance in the family firm context as a multidimensional construct. Before describing the three performance dimensions we hasten to add that we see these performance dimensions as interrelated. As elaborated on below, we conceive that one performance dimension will impact the other ones, for instance, through substitution but also synergistic effects. Family harmony through hiring of a family member might only be achievable at the expense of financial performance. But family reputation, a performance outcome on the side of the family, may also nurture corporate financial performance through access to clients and industry networks. Moreover, we also consider these performance dimensions to be interrelated in the temporal dimension. For example, entrepreneurial performance in terms of renewal or venturing might take years to manifest itself in financial terms. We now explain what we mean by entrepreneurial, financial and social performance.

### **Entrepreneurial Performance**

In line with our consideration that entrepreneurship is an important engine for generation-spanning business activities, we consider that entrepreneurial performance is one of the key performance measures for our study. Entrepreneurial performance is defined as ‘the sum of an organization’s innovation, renewal, and venturing efforts where innovation involves creating and introducing products, production processes and organizational systems. . . renewal means revitalizing the company’s operations by changing the scope of its business, its competitive approaches, and acquiring new capabilities and then creatively leveraging them to add value for shareholders. . . venturing means that the (organization) will enter new businesses by expanding operations in existing or new markets’ (Zahra, 1995, p.227; for similar definitions see Davidsson and Wiklund, 2001; Dess and Lumpkin, 2005).

The entrepreneurship view on performance considers that the relative performance advantage over competitive firms, as strategic management scholars hold (Venkataraman, 1997), is not a sufficient measure for entrepreneurial performance. This is related to the insight that a

performance advantage may be insufficient to compensate for the opportunity cost of other alternatives, a liquidity premium for time and capital and a premium for uncertainty bearing (Shane and Venkataraman, 2000). Entrepreneurship researchers rather consider performance as the degree to which valuable opportunities (for example, new entry) are exploited, thereby creating entrepreneurial rents.

The above definition of entrepreneurial performance as the 'sum of an organization's innovation, renewal, and venturing efforts' might create confusion with the measure of entrepreneurial orientation. EO is defined as an indication of entrepreneurial attitudes and practices at the firm level. As such, EO determines a firm's inclination to be entrepreneurial, and is a measure of the firm's attitude to undertake entrepreneurial efforts. To avoid confusion between the two terms, we see entrepreneurial performance as the actual entrepreneurial initiatives in terms of innovation, renewal and venturing, and hence as the manifestation of the entrepreneurial stance or efforts. Even though there might be a high positive correlation between EO and entrepreneurial performance, we see them as distinct and separate constructs. For example, a firm can display a low level of entrepreneurial performance despite high levels of EO since the organization is unable to transform its entrepreneurial posture into actual entrepreneurial performance (for example, new products), or due to the temporal distance between the entrepreneurial behavior and the actual entrepreneurial performance.

Considering the differences between entrepreneurship in the context of established firms as opposed to newly founded organizations, for example, in terms of resource stocks, we expect to discover distinct patterns of entrepreneurial performance. Whereas for newly founded firms creating new products and introducing them to new markets is the key to overcoming liability of newness, in the context of long-established firms different types of innovation activities might become essential for survival and prosperity. For example, a top selling product that has a loyal customer base does not have to be reinvented or replaced by a new product, even if it is 'old'. Rather, long-term successful goods or services need to be rejuvenated and need not to be replaced to satisfy today's customers. Accordingly, we expect long-term established firms to display different types of entrepreneurial performance, with presumably lower levels of innovation in terms of new products or markets, but higher levels of renewal. As such, we see entrepreneurial performance not as a manifestation of the firm's need to overcome liability of newness, but to overcome 'liability of oldness', defined as the liability faced by established firms to keep up with changes in their environmental and organizational setting. In a similar way, we might find that established firms are challenged more with shrinking the

product portfolio that has become excessively diversified over the years. In contrast to the traditional entrepreneurship perspective, we see such moves as equally entrepreneurial as adding new products.

### **Financial Performance**

Traditionally, management scholars have evaluated performance of organizations in financial terms. Whereas financial performance is certainly a crucial outcome of any business activity, we understand it as a result of entrepreneurial performance, and thereby entrepreneurial activities being the engine or the driver of financial success.

In the case of privately firms, performance of family firms has been assessed using objective measures such as return on equity, return on assets, return on sales and gross margin, or growth measures of the aforementioned ratios and figures. In the absence of objective measures, subjective performance measures have been used since prior research suggests that there is a high level of correlation between actual performance and the self-reported subjective performance data (Dess and Robinson, 1984; Love et al., 2002; Venkatraman and Ramanujam, 1987). In addition, subjective measures allow inclusion of perks and the financial freedom for family members to develop a reliable performance measure. In the context of publicly quoted firms, stock market performance has been investigated or Tobin's Q, the market value of the firm divided by the replacement costs of the assets.

There is a wide array of studies investigating the financial performance of privately held and publicly quoted family firms. Since Anderson and Reeb (2003) found that family firms are outperforming their non-family counterparts on the stock market, a large number of performance studies on family firms have emerged (Rutherford et al., 2008; for an overview see Miller and Le Breton-Miller, 2005). These studies provide ambiguous findings. A large number of studies examining the impact of family in ownership conclude that family ownership does not impact financial performance (Cho, 1998; Demsetz and Lehn, 1985; McConaughy et al., 2001; McConnell and Servaes, 1990; Mo et al., 1988; Stulz, 1988). Other studies suggest that it is paramount to distinguish between founding ownership (that is, first-generation family influence) and descendant ownership (that is, influence of the family via second or later generations). Several authors (for example, Adams et al., 2005; Fahlenbrach, 2006; McConaughy et al., 1998; Morck et al., 1988; Villalonga and Amit, 2006) agree that family firms are outperforming their non-family counterparts when the founder remains active in the firm. However this issue has not received unequivocal support either.

Whereas studies investigating family ownership and governance provide ambiguous findings, there seems to be some support for the case that family firms are financially outperforming their non-family counterparts when family is active in the management of the firm (Sraer and Thesmar, 2007; Zellweger, 2006). This is tied to lower salary levels, the long-term tenure of employees and related innovation and efficiency effects and trust-based manager relations.

This literature review on performance studies is far from being complete. However, all in all, studies investigating the financial performance of family firms provide very diverse results. We consider that this variety is not only related to the diversity and fuzziness of the applied family firm and performance definitions. At least as important, we consider that these frontal attempts to measure family firm performance, for example, through artificially dichotomizing family versus non-family firms, overlook how families can be drivers of entrepreneurial activities and sources of distinctive familiness which ultimately fuels financial performance. Therefore within our research model we will particularly investigate how business families' mindsets, resources and capabilities will affect the performance of these firms.

### **Social Performance**

A common theme in family business literature is that financial outcomes may have been inaccurately assumed to be the primary or even sole performance objective of a family business (Alvarez and Barney, 2004; Anderson and Reeb, 2003; Chrisman et al., 2003, 2004; Dunn, 1995; Lee and Rogoff, 1996; Sharma, 2004; Westhead and Cowling, 1997; Zellweger and Astrachan, 2008). Scholars have suggested that family firms have multiple and changing goals rather than a singular and constant goal, and that this type of firm displays a stronger preference towards non-pecuniary outcomes like independence, prestige, tradition and continuity than non-family firms (Corbetta and Salvato, 2004; Dunn, 1995; Sharma et al., 1997; Sorenson, 1999; Stafford et al., 1999; Tagiuri and Davis, 1982; Ward, 1997). We describe these non-financial performance outcomes as social performance. Thereby it is important to note that we do not define social performance according to its financial or non-financial nature. Social performance, for example, in philanthropy or giving to environmental groups, is mostly financial in nature. However, given the use of the funds for social aims we consider them as part of social performance.

Litz (1997) and Sharma (2004) have proposed that stakeholder theory might be useful in investigating family firms. Indeed, we also believe that the stakeholder framework is useful to investigate the social performance

dimension, since family firms have a natural inclination to satisfy multiple stakeholders that follow social alongside financial goals. We see three distinct reasons for this (Zellweger and Nason, 2008).

First, in contrast to non-family enterprises, family firms by definition have an additional stakeholder group, the family. In addition, the family stakeholder group has unique goals, many of which can be considered social, such as harmony, jobs for family members and family control.

A second reason why family firms have a natural inclination to satisfy multiple stakeholders is related to the tight overlap between the individual owner-manager, the family and the firm. Given that entrepreneurs in family firms often make part of all three stakeholder categories, we should expect that these decision makers have a higher incentive to ensure the particular satisfaction of the related individual stakeholders and stakeholder groups who form the reputation of the organization (Dyer and Whetten, 2006; Hogg et al., 1995).

Third, family enterprises have been reported to display strong community relations and display richer social capital due to their transgenerational outlook (Sirmon and Hitt, 2003). The transgenerational outlook and patient capital allow these firms to devote the proper time to cultivate the necessary relationships with societal stakeholders, allowing these firms to establish more effective relations with support organizations (for example, banks), while maintaining legitimacy with other important constituencies and societal stakeholders (Lounsbury and Glynn, 2001).

Applying the stakeholder paradigm to assess the social performance of family firms provides insight into the question of which social performance outcomes family firms will actually produce to satisfy key constituents. However, beyond the question of which performance dimensions should be produced to satisfy the multiple stakeholders, family firms need to answer the question of how they should efficiently produce the diverse performance outcomes originating from these multiple stakeholders. This question is related to the observation that certain outcomes of business activity have the capacity to satisfy multiple stakeholder categories and impact each other (Chrisman and Carroll, 1984). Thereby we follow Dess et al. (2003) who propose that a stakeholder analysis need not implicitly involve tradeoffs among the various stakeholders, but rather that other, for example, symbiotic, relationships may exist and that stakeholder groups can be satisfied in other matters. Zellweger and Nason (2008) have extended this line of thinking by showing that beyond substitution effects, in which non-economic performance dimensions offset economic performance, this relation can be synergistic, causal (one performance dimension causing multiple other performance dimensions) or overlapping (one performance dimension satisfying multiple stakeholders).

Despite the relevance of social performance in the context of family firms, only recently have scholars investigated this performance dimension in more detail (for example, Dyer and Whetten, 2006; Zellweger and Astrachan, 2008). By investigating the social aspects of performance, alongside entrepreneurial and financial performance, we follow calls by Chrisman et al. (2005) to further investigate the issue.

## 1.10 BRIEF INTRODUCTION TO THE CHAPTERS OF THE BOOK

Having laid out the major building blocks of our transgenerational entrepreneurship framework, we believe that the approach chosen exhibits a good fit between the theoretical foundations and the object of investigation. The following chapters introduce the methodology of our case study approach and the preliminary findings from the European STEP team.

In Chapter 2 the STEP Project's qualitative research approach is presented and discussed. In addition to explaining the need for more in-depth, theory generating research in the area of entrepreneurship in family businesses, Mattias Nordqvist and Thomas Zellweger describe the main aspects of the case research method we have applied. We cover the sampling criteria, details about data collection as well as the process of data analysis. We also briefly explain the importance of creating an interactive learning environment within a large, global research project as well as the role of the yearly summits.

In Chapter 3 the Italian team from Bocconi University, Milan, investigates the resource perspective within the transgenerational entrepreneurship framework. Ugo Lassini and Carlo Salvato argue that, although a focus on specific resources is attractive since it offers a parsimonious explanation of what determines family firms' value creation potential, there is widespread agreement among scholars that the gradual development of firm-specific resource stocks over generations may also be a source of inertial forces blocking family firm's entrepreneurial potential (Collins and Porras, 1994; Miller and Le Breton-Miller, 2005; Sharma and Irving, 2005). Despite this awareness, little research to date has been carried out on how controlling families can leverage the pool of unique firm-specific resources they develop, while overcoming the inertial risks they carry. Lassini and Salvato present a pioneering study that investigates how some family firms attain this difficult balance between the positive features of idiosyncratic resources cumulated over generations and their inertial potential.

The German team, from the University of Witten-Herdecke, represented

by Markus Plate, Arist von Schlippe and Christian Schiede, presents in Chapter 4 a single case analysis of the processes and conditions of portfolio entrepreneurship within a large multinational family firm, and identify resources that enable portfolio entrepreneurship. In their study the authors strive to answer two research questions. First, how do the portfolio of ventures emerge in the family context? This analysis includes the processes, conditions, motives and strategy of the portfolio entrepreneurship process. Second, the authors investigate which resources (influenced by the family and the entrepreneur) enable the development of successful portfolio entrepreneurship practices. This analysis takes a resource-based view, with a special focus on the bundle of resources influenced and provided by the entrepreneur and the business family. The study is an important early attempt to better grasp the dynamics of family portfolio entrepreneurship.

In Chapter 5 the Swedish team, from Jönköping International Business School, represented by Ethel Brundin, Mattias Nordqvist and Leif Melin, aims at increasing the understanding of how entrepreneurial orientation is transferred and translated to the next generation family members in strong family business cultures. The purpose of their chapter is to illustrate and discuss the role of culture as a key element for entrepreneurial orientation to travel over generations. More specifically, the Swedish team shows how autonomy and proactiveness can both support and hamper such a process. Based on findings from two in-depth case studies and the transgenerational entrepreneurship framework, they explore the role of culture, seen as a family influenced resource, on entrepreneurial orientation. Moving beyond conventional life cycle reasoning, they show that founder-centric cultures can return in later stages of the firm's life cycle. They introduce the concept of 'owner-centric culture' as an alternative way of thinking about and conceptualizing strong family businesses cultures and their impact on the entrepreneurial orientation of a business.

In Chapter 6 the French team, from HEC School of Management, Paris, represented by Alain Bloch, Michel Santi and Alexandra Joseph, analyses two French family business case studies. In both families children were faced with the sudden and early death of their fathers which left them unprepared to be in charge. They nevertheless kept the ownership of the company within the family and developed the family business successfully. In both cases they find that entrepreneurial performance followed a very similar path. In their cases firm life stage did not follow family life stage, which unleashed additional entrepreneurial performance in both firms. Both families had to face a breakout in the succession process and both families answered the same way: maintaining the firm under the family control without necessarily occupying a management position. They

succeeded in maintaining the family firm's entrepreneurial performance despite a generational breakthrough within the family life stage.

The Spanish team, from ESADE, Barcelona, represented by Eugenia Bieto, Alberto Gimeno and Maria José Parada, focuses in Chapter 7 on how familiness evolves over time. These authors specifically deal with entrepreneurial teams as a key resource within the family's pool of resources which tends to weaken over time mainly due to family complexities. Through an in-depth study, their chapter analyses the role of succession, governance structures and relations in entrepreneurial teams. A thorough analysis of interview material from family owners/managers and non-family executives of two family firms suggests that the three aforementioned elements play a critical role in the evolution of the leadership team as a distinct resource. These firms evolved from solo-founder to top management teams (teams of siblings) up to the entrepreneurial management team (team of family and non-family managers). Their chapter contributes to the family business and familiness/RBV literature by approaching the familiness advantage from a dynamic point of view, proposing an explanation about how some of the resources that create the familiness advantage are sustained or diluted.

Finally, in Chapter 8 the Swiss team, from the University of St Gallen, represented by Thomas Zellweger, Philipp Sieger and Corinne Muehlebach, investigates EO in the context of family firms that have been successful over long periods of time, in their case more than 80 years. These researchers question whether EO is a suitable concept to explain the success of transgenerational family firms. Thereby, the Swiss team investigates the levels and patterns of EO in these firms and questions whether EO really is a necessary condition for long-term organizational success in that context, as implicitly suggested by many corporate entrepreneurship studies (for example, Dess et al., 2003; Rauch et al., 2009). The Swiss team shows that the levels of EO alter across the life cycle of these firms, phases of low levels of EO followed by phases of higher levels of entrepreneurial activity. On average, the three family firms they investigate show rather moderate levels of EO across time. They also discuss the shortcomings of the traditional subdimensions of EO and propose refined measures that are better suited to explain the patterns of entrepreneurship in long-living family firms.

In summary, the chapters in this book explore parts of the building blocks and relationships within the transgenerational entrepreneurship framework. As such, these chapters do not strive to provide a complete overview on all aspects that can potentially be explored within the transgenerational entrepreneurship framework. We hope, however, that they stimulate further reflections and research about one of the most central

questions in investigating family firms: what makes these firms successful in the long run.

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