THE UNIVERSITY OF BRITISH COLUMBIA
SAUDER School of Business
Business Families Centre

ResearchMatters

BUSINESS FAMILIES CENTRE'S WHITE PAPER SERIES

Entrepreneurship and Innovation in Family Firms: Reassessing the Fixation on "Success" and "Failure" in Family Enterprise

"the term 'entrepreneurial family' was long considered an oxymoron."

BY JENNIFER HALYK

APRIL 2013

Nearly all mainstream literature and media coverage of family-owned businesses, as well as advertising aimed at family enterprise, focusses on succession from one generation to the next and the challenges that arise in this transition. One could argue that the field of family enterprise is besieged by the topic of succession. However, new research from the discipline of entrepreneurship suggests that succession may not be as big a problem as many in the field have traditionally thought.

By adopting newer concepts based on the entrepreneurial tendencies of family firms, these enterprises should embrace the unique strengths and powers that they have over non-family firms and ultimately reach their highest potential, becoming a stronger global force. Instead of focussing their efforts and resources on succession and its challenges, family firms ought to shift their focus to innovation and growth, thus increasing their chances of long-term survival and gaining a foothold in the global marketplace. Focussing on family firms' ability to engage in risk taking behaviour and investing in non-financial forms of capital—capabilities that have traditionally been underestimated by the broader business community when looking at family enterprise—would help optimize these firms' performance and success.

The Entrepreneurial Family: A Contradiction in Terms?

In the field of entrepreneurship, the term "entrepreneurial family" was long considered an oxymoron (Uhlaner, Kellermans, Eddleston & Hoy, 2012). Any self-respecting capitalist investor scoffed that family businesses were stagnant, risk averse and conservative to a fault (Miller & Le Breton-Miller, 2008; Ward, 2007; Steier, 2003; Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007).

Since "earl[ier] family firm research put family and business objectives at opposite poles—as family first versus business first" (as cited in Uhlaner et al., 2012), family enterprise gained a bad reputation, and with such slow growth in the academic field of study the myths persisted. This division of business and family objectives implied that the two were in competition with each other. Business interests gradually became characterized as "good" and family interests as "bad," and eventually they were seen as functional versus non-functional organizations (Habbershon & Pistrui, 2002).

More recently, scholars started to encourage the view of family business as potentially high-performance enterprising systems rather than entities hindered by

Research Matters is made possible through the generous support of CIBC

CIBC

internal conflict (Habbershon & Pistrui, 2002), and ultimately began to "recogniz[e] family as the oxygen that feeds the fire of entrepreneurship," in the words of a 2003 editorial in the Journal of Business Venturing (Rogoff, Kay & Heck). As awareness of how "families create, indeed breed, entrepreneurs" (Rogoff, Kay & Heck, 2003) has grown, so has the recognition that family businesses "enjoy special niches in the competitive landscape" (Sirmon & Hitt, 2003). According Sirmon and Hitt (2003), these special qualities, which include both negative and positive attributes, can be described as follows:

"These so-called succession statistics became so ubiquitous that their true meaning was misinterpreted and then lost."

- Human capital: a person's acquired knowledge, skills and capabilities that allow for unique and novel actions.
- Social capital: relationships between individuals or between organizations and the sum of the resources embedded within this network.
- Patient financial capital or patient capital: a generational investment strategy that operates on a longer time horizon and is therefore not as accountable in the short term as a firm that needs to demonstrate quarterly results.
- Survivability capital: the integration of the above-mentioned unique resources, representing the pooled personal resources that family members' loan, contribute or share for the benefit of the family business.
- Unique governance structures: family firms can be more flexible and practice less costly governance than those of non-family firms (i.e., unpaid advisory board members).

When combined, "these unique resources and attributes can enhance the management . . . of family firms' resource profiles," though they must be managed appropriately in order to produce value (Sirmon & Hitt, 2003). Furthermore, these resources must be bundled and leveraged for family firms to gain a competitive edge over non-family firms, and how these resources are managed can make the difference between high-and low-performing firms (Sirmon & Hitt, 2003).

Redefining "Success" and "Succession"

As scholars were identifying and exploring the unique values and traits of family firms, the for-profit sectors and institutions that strove to win family business clients were using and re-using succession figures that condemned family firms to a 30 percent survival rate from the first generation to the second and a mere 13 percent survival rate from the second generation to the third. The original adage of "shirt-sleeves to shirtsleeves in three generations" became perhaps the most frequently cited phrase in family enterprise literature. This trite phrase encapsulates the theory that the first generation of an enterprising family spends its lifetime working very hard and living frugally, and the second generation enjoys post-secondary education and a comfortable lifestyle, eventually entering elite society. Finally, the adage infers that the third generation grows up in luxury, doing little or no work while squandering the family fortune and ultimately consigning the fourth generation to return to manual labour and frugality (Hughes, 2004). These so-called statistics became so ubiquitous that their true meaning was misinterpreted and then lost. They became something of a scare tactic for marketers, preying on the fear and insecurity of enterprising family members who dreamt of being able to provide for their children and grandchildren. Unfortunately for those who work in family businesses, and particularly those who aim to educate others about the importance and relevance of family enterprise in our global economy, these succession statistics have gone largely unchallenged by scholars. The repetition of these figures also contributes to and reinforces the widely held and erroneous perception that family relationships complicate business activity (Zellweger, Nason, & Nordqvist, 2012).

Dr. Thomas Zellweger, Managing Director of the Center for Family Business at the University of St. Gallen, Switzerland, recognizes that family firms exhibit unique traits, values and non-financial forms of capital. He argues that the capacities for value creation and longevity in family firms have been both misunderstood and underestimated and believes that the aforementioned figures on succession are oversimplified, outdated and inaccurate (Zellweger et al., 2012). Within the last several years, he and his research team have aimed to re-frame the debates and beliefs around these qualities by focussing on entrepreneurial tendencies and developing a new way of measuring them. Believing that the dynamic nature of family enterprise had been historically neglected, Zellweger and his team sought to dispel the assumptions that survival of one family firm—a single operating business—is the ideal (or the only) way to pursue and achieve long-term success and that low succession rates mean that a family enterprise is inept or incapable (Zellweger et al., 2012).

"These succession statistics have gone largely unchallenged by scholars. The repetition of these figures also contributes to and reinforces the widely held and erroneous perception that family relationships complicate business activity."

Instead of looking at the operating business and its lifespan as a "problem," they used the family as the level of analysis to examine longevity through generations. By examining how family members drive entrepreneurial activity and growth over time, the research team could see that multiple business "entries" and "exits" were natural occurrences of enterprising families, rather than deeming the operating business a "failure" if it was sold or closed. Applying this long-term perspective gave them insight into how families contribute to their enterprises in a variety of financial and non-financial forms, regardless of whether an operating business was sold, another one was started or the original one was re-invested in for growth.

In this vein, Zellweger says the terms originally used to define successful or failed succession, such as "family business," "business exit" and "business entry," are too restrictive and do not encompass the variety of ways in which a single family can own, operate and re-invest in multiple operations at any given time. The dynamic nature of the family unit should be credited as a creator of success and a driver of economic activity, as opposed to just one founder-owner or individual operating business.

"Basically [the existing succession statistics say that] 70 percent of all family firms disappear from one generation to the next," said Zellweger in a 2012 interview with Research Matters. "These statistics depict a very depressive picture of family firms. It seems to suggest that there is something inherently wrong with these companies. The second critique that we had on this figure was . . . it assumes that families only have one business. It means that if it's sold and it's no longer under full family control, it means failure." According to Zellweger, there are many indications to suggest that this representation is over-simplified. For example, the original data overlooks the firms that went public, which were sold very successfully by the families who started them, and therefore were not failures at all.

"Actually, they were all the opposite of failures," he said. "They were very successful entrepreneurial strategies to kind of capitalize on their value creation by going public, or just selling out if you have a buyer who thinks they can bring more value than you can."

By showing that these over-used succession figures are simplified and inaccurate, the researchers argue for a family-centred perspective, which takes into account the sometimes multiple business operations of one family, their adaptability in the face of adversity and their resilience over time.

As a result of shifting the level of analysis to the family, we are not interested as much in continuity, succession and stability of an individual family firm—which have been dominant in family business and longevity studies to date—as we are in change, growth, and the creation of the new induced by the controlling families (Zellweger, et al., 2012).

Furthermore, the authors illustrate that entrepreneurial families are risk takers, but not in the way we have come to think of risky business. For example, Zellweger says, owners may hesitate to do anything that would threaten the business, but in many cases their entire life's wealth is tied to the firm, which indeed exhibits a great willingness to take risks. "The original way of looking at entrepreneurship was [to focus on] autonomy, innovativeness, risk-taking practices and competitor laziness," Zellweger said in our 2012 interview. "But . . . as opposed to just saying, 'we are business first,' or 'family first,' we actually said it's important to distinguish between external and internal autonomy, and external and internal innovativeness, and the conditions between these types of risks."

"The dynamic nature of the family unit should be credited as a creator of success and a driver of economic activity, as opposed to just one founder-owner or individual operating business."

This shift from clear-cut definitions of success and failure of single family–operated businesses to a long-term perspective on entrepreneurial traits within a family enterprise would not only dispel the prevalent belief that succession is the most crucial and time-sensitive challenge for family firms today, but it would also debunk the common myth that nearly all family firms are doomed from the start. Reframing family enterprise would change how it is perceived by academic researchers in other disciplines. Perhaps then the global business community would recognize that family firms are in the unique position of being able to own and operate multiple businesses within the lifespan of a generation.

Adopting a Focus on the Family

Calling their new measurement Family Entrepreneurial Orientation (FEO), Zellweger and his team blended family qualities such as harmony, tradition, support and stability with conventional entrepreneurial and business qualities such as innovation, change and growth. They aimed to assimilate the dominant business and family traits in order to create a more accurate measurement of entrepreneurial tendencies in a family enterprise. Other researchers also looked at the myriad of non-financial assets and capital in family firms, as well as versions of wealth that had not been recognized previously or been given due respect (Hughes, 2004; Zellweger & Astrachan, 2008). These sometimes resulted in similar calls for a focus on the family, including the adoption of the "family lens," or the "family embeddedness perspective," because "family dynamics are the most important factor that affects entrepreneurial processes" (Aldrich & Cliff, 2003). Likewise, researchers Habbershon and Pistrui (2002) use the term "transgenerational wealth" to describe and explore family owners who maintain wealth creation as a goal through successive generations, as opposed to those who focus on specific operating business entities or assets. Another concept that focusses on the family, called "transgenerational entrepreneurship," refers to the ways in which a family "uses and develops entrepreneurial mind-sets and family-influenced capabilities," which then create streams of entrepreneurial, financial and social value across generations (Nordqvist & Melin, 2010).

Whichever phrase we use (family entrepreneurial orientation, the family embeddedness perspective, transgenerational wealth or transgenerational entrepreneurship), the terms themselves are less relevant than the common thread between them—namely the focus on the family as the central entity in a business enterprise, which potentially spans several generations. The strength of these newer concepts lies in their recognition of the family as the strongest driver, the consistent, stabilizing force in a potentially multigenerational lifespan of not one but numerous operating, growing, dynamic businesses. After all, what would a successful, multigenerational family enterprise be without its family?

A renewed and more accurate assessment of family enterprise would recognize the following:

- Wealth creation rests on a family's ability to innovate and take risks (Zahra, 2005).
- Family firms have unique assets, cultures, and managerial processes that may contribute to greater earnings uncertainty (Zahra, 2005).
- Family finances often fund new entrepreneurial ventures, which is the opposite of being risk averse (Steier, 2003).
- It is entirely possible for family firms to be simultaneously risk willing and risk averse (Gomez-Mejia et al., 2007).

- The strategic move to exit a business may actually increase family wealth and resources and potentially lead to other opportunities (Zellweger et al., 2012), and it should therefore not be considered a "failure."
- No single-family firm would necessarily score highly on all entrepreneurial characteristics, and these characteristics do change or fluctuate over time (Zellweger et al., 2012).

"The strength of these newer concepts lies in their recognition of the family as the strongest driver, the consistent, stabilizing force in a potentially multigenerational lifespan of not one but numerous operating, growing, dynamic businesses. After all, what would a successful, multigenerational family enterprise be without its family?"

Therefore, when it comes to enterprising families, we can say that entrepreneurship creates value, and value creation better ensures survival of the family enterprise, irrespective of whether it manifests in one operating business, multiple operating businesses, real estate and financial portfolios, a foundation or a family office. Adopting a focus on the family as the best unit of analysis—instead of focussing on one operating business entity—is a more accurate way to measure the success or failure of an enterprise and is paramount to assessing a family's ability to create wealth, secure future livelihood and ensure transgenerational prosperity.

Innovation, Growth and Competitive Advantage

By re-investing in innovation, creation and growth within their firms, enterprising families could potentially exhibit more competitive advantages and thus attract better talent. Recruiting skilled talent, a struggle for Canadian firms that was recently highlighted in a PricewaterhouseCoopers survey, is a challenge in part because of family firms' reputation for exhibiting conservative growth strategies, which do not appeal to a younger demographic. Furthermore, the survey found that Canadian family firms are slow to expand into international markets, where growth activity and demand lie. In order to grow, these family firms must foster their ability to expand into new and international markets.

"Innovation will be vital for Canadian family businesses to evolve, grow and secure a competitive advantage against its global counterparts," according to Tahir Ayub, Canadian Private Company Services Leader at PwC.

Likewise, Sauder School of Business Marketing Instructor Paul Cubbon is an advocate for ongoing investment in innovation, because very few businesses are doing exactly what they were doing 30 years ago, regardless of their ownership structure.

"If I were in a family business, I wouldn't wait for the succession piece to suddenly say 'oh, we're not innovative,'" Cubbon said in a telephone interview. "Because the longer you go without having innovation and renewal as part of your whole strategy, the harder it is. And if you've actually done it before you get to succession, then it should be less of a problem because you've got clarity of strategy, purpose and resource allocation and so on."

Too often, he says, people get "locked in" to doing what made them successful initially, and they need to realize that innovation doesn't necessarily mean drastic change; it could mean that they need to tweak a process or change the service around a product. The problem is that many organizations—not just family firms—wait too long before adopting innovation as a fundamental part of the way they operate. By then, it's too late—their competitors have surpassed them, and they are unable to catch up.

"What's going to force the leadership of any organization . . . to do something before their competitors make them irrelevant?" Cubbon asked. "Very rarely do people choose to [implement innovative practices] in an evolutionary way because that's why you can boil a frog. So you need some sort of dramatic sense of purpose and leadership."

If family firms were given credit for the innovative and entrepreneurial traits they already have, they might be more likely to invest their resources into fostering these traits, potentially resulting in greater opportunities for growth, long-term survival and a foothold in the global marketplace. By focussing on the family when fostering innovativeness, risk taking and potential wealth and growth opportunities, family enterprises would embrace and better utilize their unique power and strengths, and ultimately the global business community would see them in an entirely different light.

The field of family business has long been dominated by the challenge of succession. While planning for intergenerational transition is necessary, adopting a family-focussed perspective would use a company's unique characteristics to achieve immediate results. Without underestimating the importance or replacing the process of intergenerational transition, these newer concepts and measurements based on entrepreneurial behaviours must be recognized and valued. Since family firms occupy a special niche in the competitive business landscape, they should at least be credited with the innovative and risk-taking behaviours that they already exhibit. But by allowing them support and recognition instead of writing them off as doomed to fail at succession, these family firms could rightfully claim their place in the world, creating exciting new directions for a field that is worthy of new possibilities, growth and optimism for the future.

"By re-investing in innovation, creation and growth within their firms, enterprising families could potentially exhibit more competitive advantages and thus attract better talent."

These newer ways of looking at and assessing family enterprise are challenging traditional business and economic measurements of success, such as competitive advantage or capabilities. Historically, the ways in which family firms were assessed by strict definitions of success and failure ignored their unique characteristics and attempted to assimilate them into traditional business models—like trying to fit a square peg into a round hole. Therefore, we must challenge our long-held definitions of success, succession, entry and exit of a single-family business and recognize that the disproportionate failure rates that have plagued the field for decades are myths.

The lesson for members of family firms, and their professional advisors, is the same: they would benefit from shifting their focus from the inevitable challenge of succession to innovation for growth today.
By addressing more immediate challenges such as growth, adaptability, resilience and risk taking in their current environment, family enterprises would focus on value creation for long-term survival—a vastly different perspective from the traditional recommendation of long-term planning to avoid becoming a doomed succession statistic.

WHAT ARE YOUR EXPERIENCES WITH ENTREPRENEURSHIP AND INNOVATION? CLICK ON THE ICONS TO JOIN THE CONVERSATION ON TWITTER, FACEBOOK OR LINKEDIN.

Aldrich, H. E., & Cliff, J. E. (2003). The pervasive effects of family on entrepreneurship: Toward a family embeddedness perspective. *Journal of Business Venturing*, 18(5), 573–596. doi: 10.1016/S0883-9026(03)00011-9

Berrone, P., Cruz, C., & Gomez-Mejia, L. R. (2012). Socioemotional wealth in family firms: Theoretical dimensions, assessment approaches, and agenda for future research. *Family Business Review*, 25(3), 258–279. doi: 10.1177/0894486511435355

Breton, I. L., & Miller, D. (2008). To grow or to harvest? Governance, strategy and performance in family and lone founder firms. *Journal of Strategy and Management*, 1(1), 41–56. doi: http://dx.doi.org/10.1108/17554250810909419

Gomez-Mejia, L. R., Takacs Haynes, K., Nunez Nickel, M., Jacobson, K. J. L., & Moyano-Fuentes, L. (2007). Socioemotional wealth and business risks in family-controlled firms: Evidence from Spanish olive oil mills. *Administrative Science Quarterly*, 52, 106–137.

Rogoff, E. G., Kay, R., & Heck, Z. Evolving research in entrepreneurship and family business: Recognizing family as the oxygen that feeds the fire of entrepreneurship. [Editorial]. (2003). *Journal of Business Venturing*, 18, 559–566.

Habbershon, T. G., & Pistrui, J. (2002). Enterprising families domain: Family-influenced ownership groups in pursuit of transgenerational wealth. *Family Business Review*, 15(3), 223–237. Retrieved from http://search.proquest.com.ezproxy.library.ubc.ca/docview/211079431?accountid=14656

Hughes, James E., Jr. (2004). *Family Wealth—Keeping It in the Family: How Family Members and Their Advisers Preserve Human, Intellectual, and Financial Assets for Generations*. New York, NY: Bloomberg.

Kellermanns, F. W., Eddleston, K. A., Sarathy, R., & Murphy, F. (2012). Innovativeness in family firms: A family influence perspective. *Small Business Economics*, 38(1), 85–101. doi: http://dx.doi.org/10.1007/s11187-010-9268-5

Nordqvist, M., & Melin, L. (2010). Entrepreneurial families and family firms. *Entrepreneurship & Regional Development,* 22(3/4), 211–239. doi: 10.1080/08985621003726119

PricewaterhouseCoopers (2012/13). *The Canadian supplement to the 2012/13 PwC Global Family Business Survey.* Retrieved from http://www.pwc.com/ca/private

Sirmon, D. G. and Hitt, M. A. (2003). Managing Resources: Linking Unique Resources, Management, and Wealth Creation in Family Firms. *Entrepreneurship Theory and Practice,* 27: 339–358. doi: 10.1111/1540-8520.t01-1-00013

Uhlaner, L. M., Kellermanns, F. W., Eddleston, K. A., & Hoy, F. (2012). The entrepreneuring family: A new paradigm for family business research. *Small Business Economics,* 38(1), 1–11. doi: http://dx.doi.org/10.1007/s11187-010-9263-x

Zahra, S. A. (2005). Entrepreneurial risk taking in family firms. *Family Business Review*, 18(1), 23–40. Retrieved from http://search.proquest.com.ezproxy.library.ubc.ca/docview/211068999?accountid=14656

Zellweger, T. M., & Astrachan, J. H. (2008). On the emotional value of owning a firm. *Family Business Review*, 21(4), 347–363. Retrieved from http://search.proquest.com.ezproxy.library.ubc.ca/docview/211072110?accountid=14656

Zellweger, T. M., Nason, R. S., & Nordqvist, M. (2012). From longevity of firms to transgenerational entrepreneurship of families: Introducing family entrepreneurial orientation. *Family Business Review*, 25(2), 136–155. doi: 10.1177/0894486511423531.

SAUDER
School of Business
Business Families Centre

The Business Families Centre at the University of British Columbia's Sauder School of Business provides internationally renowned education programs, resources and research to business families, professional advisors and executives in the field of family enterprise. Leading the way with research and innovation at the intersection of family enterprise and business acumen, the Business Families Centre advocates education as the central path to success for all enterprising families. The BFC's partnership with the Institute of Family Enterprise Advisors (IFEA) has successfully established the first and only family enterprise advisor designation in the world.