The Future of Family Businesses: Family Entrepreneurship

Kathleen Randerson

EDC Paris Business School, France
70, Galerie Des Damiers - Paris La Défense 1
92415 Courbevoie Cedex - France
kathleen.randerson@edcparis.edu

Abstract

Keywords

Family Business, Family Entrepreneurship, Family, Futures, Field of research,
1. Introduction

The purpose of this special issue is to examine possible futures of family businesses and their relationship to the economic, environmental and social futures of humankind. A family business (FB) is a business “governed and/or managed with the intention to shape and/or pursue the vision of the business held by a dominant coalition controlled by members of the same family or small number of families in a manner that is potentially sustainable across generations of the family of families” [1:25].

Considering that family businesses represent the main form of firms worldwide [2, 3], and because they make important contributions to the global economy in terms of job creation, gross national product, and wealth generation [4-6] their futures will impact the futures of economies and societies. But the impact of FBs on society is itself influenced by the specificity, multiplicity and evolutions in the family as an institution as well as the evolving nature of business.

Some families, often called business families, have strong backgrounds in business ownership, which passes through successive generations [7]. As the breeding ground for entrepreneurial predispositions [8], family influences positively or negatively the entrepreneurial behaviors of its members. In addition, families are currently rapidly evolving [9-11], and this may impact family businesses.

In most industrialized countries, the nuclear family (a married couple and their dependent children) is a minority among other forms of families: married couples (who had been previously married to other spouses) with children, couples who are married and have no children, cohabitating partners with and without children, and extended families, including grandparents. Single-parent families, same-sex partnerships, foster families, and other legal guardianships as well as adults linked by biological children are also forms of family for which the influence on entrepreneurial behaviors and the effects of entrepreneurship on have yet to be considered. This is of importance because, for example, women entrepreneurs and heads of household tend to spend more on household health, nutrition and education than men [12]. In developing countries, females have been assigned a special role because they stand to benefit from entrepreneurship and are seen as a critical driver of entrepreneurship in light of their unique role in the household, and in light of the rise in female-headed households across the developing world [13].

But the impact of FBs on society is also influenced by entrepreneurship. Indeed, from being focused on firm creation entrepreneurship has come to characterize sustainable value creation, for example through sustaining the firm through succession, and creation of values of different types (economic, social) [14].

In order to project the futures of family business, we need to first look at its past and present.
2. The past and present

For centuries, businesses were by essence family businesses [7, 10]. The business was first a means of creation of personal and family wealth, firms being passed from one generation to the next. Family was the main pool of resources: financial, human, and emotional. Business families also embrace other meanings related to non-economic benefits of owning a family business. Socioemotional wealth (SEW) refers to affective endowments that family owners consciously or unconsciously establish with the firm [15, 16]. SEW, initially conceptualized to understand the behaviors of family firms has recently been utilized to understand business family behaviors. For example, [17] note that a family firm’s desire for trans-generational succession may result in a unique emergence of habitual entrepreneurship occurring at the family, as opposed, to firm level of analysis The identity of the owner and that of the business develop over time and over generations, these identities are personal and idiosyncratic [7].

It is with the advent of the industrial revolution and impending larger firms that entrepreneurs turned to institutions other than family to secure the needed funding for these larger projects. It is these firms (“corporations”) which attracted most of the attention of business academics. Indeed, it is only recently that family business has emerged as a legitimate field of inquiry for business scholars [18]. The first known research effort on family businesses is recorded to be Calder’s dissertation on small manufacturing family firms in 1953 [19]. Since then, works dedicated to understand the uniqueness of family firms, to define family businesses, and to analyze specific issues such as succession, performance, governance and the presence of multiple and different goals and resources have flourished [for a review see 20].

Much of the extant knowledge in the field of family business focuses on the distinction between family and non-family businesses: the characteristics and consequences. A vast and valuable body of knowledge has been produced on the differences between family and nonfamily firms as well as how the family influences the firm. An important caveat of this body of literature is that it assumes that all families have similar consequences on the family business [21]. Indeed, family business scholars are using a few variables related to family involvement in order to explain their impact on a large number of dependent variables [22], whereas the contrary would lead to a better understanding of how families influence the business. A second issue relates to the oversimplification of the study of entrepreneurship in the family business context [21]: the study of entrepreneurship and family business have been mutually exclusive [23]. This gap is important to reduce, because as most firms are family businesses, family business founders are entrepreneurs. The family business needs to demonstrate entrepreneurial behaviors throughout its life cycle [24].

Considering the blind spots that studying separately family, family business and entrepreneurship engenders, a new field, family entrepreneurship, has emerged and is rapidly developing [21, 25-27]. This field has been defined as the “research field that studies entrepreneurial behaviors of
family, family members, and family businesses” [25:164]. Bettinelli et al, building on the previous work in family entrepreneurship, explore entrepreneurial behaviors by analyzing the possible interplays that can occur among the individual, the family, and the family business, and order offer a conceptualization of the field. Randerson and colleagues [21] analyze family entrepreneurship as the intersections of the fields of family, entrepreneurship, and family business. To project the futures of this developing field, we now present the articles selected for this special issue within this framework.

3. The futures …

Family entrepreneurship is dependent upon the futures of family, the futures of entrepreneurship, and the futures of family business.

3.1. of Family

The importance of envisioning the futures of families is here twofold. First, family belonging determines being included in the family business. Second, although the global information economy in which we live pushes towards a unified understanding of family, families still differ according to culture. Third, the family has been identified as the main frame in which entrepreneurial intentions and knowledge are fostered.

The concept of family foundational to present paradigms tends to be restricted to idealized imagery of US middle class, modern nuclear households, despite that the very existence of such a system is hardly enduring [11]. Historical evidence suggests that the nuclear family concept is one of the shortest-lived manifestations of social organization and therefore its lifetime may be nearing its end [10]. These authors retrace the changes in the American family over the past 100 years, and point out that the nuclear family predominant in the 1950’s has been overshadowed by other family forms (extended, recomposed, and more recently same-sex). Once seen as a stable institution, the family can now be seen as a dynamic organizational form [11].

Since parenting defines and cultivates gender roles for men and women from biological and cultural perspectives, the evolution of these roles within the family structure has implications on gender equality, economic power, worldview, and modes of production [11]. We saw that women entrepreneurs and heads of household tend to spend more on education health and nutrition [12] the evolution of these roles can potentially affect society.

There are currently two approaches to family. Traditionally, scholarship adopts the structural view of the family [28] meaning that biological and legal ties (e.g. marriage, filiation) bind
together a family group constitutes the foundational assumption [29:108]. In the transactional view, the family is defined as “a group of intimates who generate a sense of home and group identity, and who experience a shared history and a shared future” [30:71]. It is important to note that in the transactional view the boundaries of “family” are socially constructed, varying over cultures, generations, and ideology [30]. Both of these approaches carry caveats. Biological ties are ever more tenuous (medically assisted conception) and legal ties reflect past practices. Laws are made to institutionalize situations (e.g. gay marriage to offer a legal framework for same sex couples, phenomena which has long existed in fact). In addition, the system of law also has important consequences on family membership. As a consequence, determining who is included in family membership and how these different conceptualizations of family impact entrepreneurial behaviors or intentions of the individual, or how these different conceptualizations of family affect the founding, growth, or succession of the family business is ever more challenging. An interesting contribution in this field is the article by Barredy [31], which sheds light on how the legal system (civil law versus common law) determines family belonging and more specifically the possibility to include (or not) members. She points out that “family” does not begin with marriage (or other legal envelopes for formalizing partnerships) but with filiation, and that the civil law system does not allow to “escape” from one’s family, or for the family to exclude a member (No Exit Option), whereas the common law system does (Exit Option). In the first, strong and rigid legal mechanisms will frame family business decisions and functioning. In the second there is more room for discretionary decisions based on socioemotional values and mechanisms. Barredy offers scenarios of futures of family business in the EO and NEO contexts. In the EO context, she develops four scenarios. In scenario 1, family business priority, the predecessor chooses freely the heir, from inside or outside of the family. Scenario 2, family business co-construction, recognizes that family members have different goals. Co-construction and conflict regulation rely strongly on socioemotional ties and mechanisms such as trust altruism, and loyalty. Scenario 3, multiple heir’s transmission, is based on the assumption that the predecessor does not choose the heirs (e.g. accidental death), wishes (or is constrained by the legal system) to transfer to more than one heir. This increases the number of family members running the company and thus increases the risk of conflict. In order to address this, governance mechanisms such as holding pyramids or foundations can be set up. This scenario reflects more the Civil law situation (NEO) and can explain why these governance structures are more prevalent in Civil law countries. Finally, scenario 4, exit family, reflects that the predecessor did not make a choice of heir, family members do not share the same goals, and socioemotional ties are too weak to regulate conflict. This leads the family to exit the firm. She also develops four scenarios for the NEO context (Civil law countries). In Scenario 1’: the Balanced Family Business, the family running the business is composed of a nuclear family (parents and children). NEO leads to strong legal rights among the family members. The family members hold similar interests and the socioemotional wealth is high. There is no real need for regulation. In scenario 2’, the Dilemma Family Business, the family business is composed of the nuclear family but family members embrace different goals. Family relationships are stabilized through socioemotional (family) values and mechanisms. In Scenario 3’, the Sophisticated
Family Business, the family is composed of many heterogeneous links (e.g. different branches of the family linked by ownership). The legal constraints as well as symbolic attachment to the firm are weak. The sophistication of the family business comes from the heterogeneity of the relationships leading to the presence of family members both strongly attached to the firm weakly attached to the firm. The business becomes a solution for mitigating family instability. The complexity of the relationships and the tension in terms of priority and interest leads to a need for formal mechanisms, such as the structuration of the board, the creation of family council, a family charter, business groups of pyramids, including family offices, dedicated to family regulation. Finally, in Scenario 4’, the Diluted Family Business, there is a wide variety of genealogical links and goals. Family influence is low and family continuity no longer a priority. The important contributions of this paper is to show that the vast majority of family business research (based in the US and including assumptions ensuing from Common law) neglects the Civil law context and its consequences on firm management, succession, and governance. This is important because more than 170 countries have legal systems based on Civil law, whereas Common Law reigns mainly in the United States, the United Kingdom, Australia, New Zealand, India and Canada.

Barredy’s piece illustrates how the transactional and structural views can contribute to a better understanding of family-related questions, here succession and governance structures. Indeed, Koerner & Fitzpatrick, [28] note that the transactional and structural views are not mutually exclusive and both can contribute to a fuller comprehension of “family”. This dual view is also reflected in the “Marriage Marketplace” model by Montgomery [11]. In this model, families are run with entrepreneurial instincts and capitalistic goals. A consumer paradigm of matchmaking sets the stage for unions which are arranged and formalized. Families take a variety of forms (same sex, group, non-sexual, and/or no parent). Parenting and guardianship of children is extremely complex, and most strikingly, childrearing has become distinct from formal male-female relationships. Men’s relationships with their biological children are complex: men are less likely to live with their biological offspring and more likely to live with other children (the children of their successive partners) [9]. There is little or no political, legal, or social pressure to conform to an ideal of marriage: the idea is to find the best investment for one’s personal social capital.

Women have responded to the possibilities germinating from the decline in fertility and mortality by following men to employment outside the home. Women desiring to maintain a certain work-family balance tend to look towards entrepreneurial careers (“mompreneurs”). Identifying and developing synergies between the home sphere and the professional sphere is more often related to a feminine gender role because women educated in a female gender role are encouraged to pursue work-family synergies, emphasize interconnectedness and relationships [32, 33], leading them to integrate business and family roles [34]. As we have mentioned previously, there are
important social effects because women invest more in hygiene and education of the household [12], thus contributing to the decline in mortality.

Some are convinced that the US model of family (i.e. the nuclear family) would become global model; the diffusion of this system would be automatic [35]. Instead, we see two trends. First, the globalized information economy pushed families, in the US and globally, towards a state of “diversity, flux and instability”, resembling more and more the Marriage Marketplace model by Montgomery [11]. Second, it is still timely to underscore the differences in family structure across cultures. In China, for example, the family cell of reference is not the nuclear family, but the stem family: parents living with a married child with spouse and children. In this country, the proportion of men and women living in stem families for couples married during 1977–1982 period rose to 68%, a level comparable with those married before the Communist takeover in 1949 [35]. In Latino enclaves in the southwest border countries [36] as well as in East Africa [37] families comprise multiple earners, multiple generations, a large number of dependent children; family and community ties are strong. Here, the challenging economic conditions create opportunities for micro business and informal entrepreneurial activities and serve to face the obligations that strong extended family ties create.

Independently of the form of the family or successive families, each individual is embedded in a family social network, which influences his/her entrepreneurial behaviors. Indeed, according to the social embeddedness approach, the behavior of individuals does not depend on calculations and opportunism (i.e., formal contractual norms), but are rather embedded in social structures consisting of networks of interpersonal relationships and social ties that are based on trust and closeness [38, 39]. Building on this approach, Aldrich and Cliff [10] argue, in the family embeddedness perspective, that actors and businesses differ with regards to how embedded they are in certain relationships and ties. An individuals’ level of embeddedness in the family can vary according to cultural or social factors and to different levels of family connectedness and cohesion [40], as well as the consequences of the legal system (Barredy, this issue). This means that individuals’ behaviors can be more or less influenced by the family they belong to, depending on the strength and structure of relationships among family members. Individuals will feel a sense of togetherness and social solidarity toward each other when family groups are cohesive [41], and this will affect their behaviors.

In the Futures of family we can foresee two possible scenarios. First, the dislocation of family actually accelerates entrepreneurial intentions and knowledge acquisition, since the foundations of the family paradigm is based on entrepreneurial behaviors. This scenario is directly reflected in the “Marriage Marketplace” model by Montgomery [11], characterized by a consumer paradigm of matchmaking where unions are formalized by contracts, families blossom in a wide variety of legal forms and child rearing is dissociated with couple-hood. Children raised in this context are influenced by their observation that mates are matched based on how well a potential partner satisfies a list of criteria, and that day-to-day life involves adults working together in a seemingly
egalitarian bargaining environment. Second, this dislocation impedes fostering these intentions and knowledge acquisition, and other organizations or institutions take the relay (ex: education systems, professional groups). This scenario is reflected in Montgomery’s “Mr. and Mrs. Right Now model, characterized by transient relationships and equal economic partnerships, the emergence of a network of adults outside, who have concern for and influence over children, meaning that more adults than biological parents have an influence over the children. This dispersion of influence over a greater number of adults can have as a consequence a weaker influence of these individuals over the children.

We will now turn to the futures of entrepreneurship.

3.2. of Entrepreneurship

Traditionally rooted in a positivist approach, entrepreneurship research is progressively embracing different epistemological stances, allowing us to envision the futures of entrepreneurship research.

If the main question, for many entrepreneurship scholars still remains: “how does one successfully create a new venture?” the field has embraced others, such as “what characterizes entrepreneurial behaviors, on an individual and group level [42, 43]?”, how can one identify, evaluate, and exploit an opportunity to create a new business idea [44]?”, “what are the different entrepreneurial processes (effectual, causal) and how do they play in [45]?”, “how does one become an entrepreneur, which factors trigger this career choice [46-49]?”, “how are entrepreneurial opportunities discovered/identified or created [50]?” among others.

Moreover, it has become widely admitted that entrepreneurial processes can create different types of value. Social entrepreneurship or corporate socially responsible activities respond to a need for social value creation [14]. Although it is well documented that family businesses embrace willingly non-economic goals [15, 16], there is a remarkable paucity of research on CSR activities in family businesses [51]. Campopiano and colleagues find that family firms are intrinsically motivated to engage in socially responsible initiatives, relying on their legacy to sustain initiatives that reflect shared values over generations. Although a good start, this piece assumes that all family businesses embrace the same perceptions of and enact similar CSR behaviors, whereas there are important differences in family businesses.

Bergamaschi and Randerson [52] push the analysis. They mobilize the “three circles model” [53] which sees the family business as a system comprised of three subsystems (family, ownership, and business) and the evolution of CRS approaches (from positive to post positive to Habermasian) to sketch a typology of family firms according to their perceptions of CSR and subsequent behaviors. Instrumental family firms are those in which shareholders are concerned
with return on investment and share value, leading the firm to engage in CSR activities only if this supports their direct and short-term interests and CSR activities are be perceived as a means to serving these interests. This dynamic reflects an opportunistic behavior because the firm responds to external pressures to undertake CRS activities (for example pressure from consumers) and in the expectation of a return in exchange, in the same perspective that non-family businesses engage in such activities. Pragmatic family firms are those in which the business system is comprised of a wider variety of stakeholders, holding different expectations. Here, the family business adopts both economically and socially responsible behaviors that reflect a set of rules to which all of the actors involved adhere to and according to which the firm has both economic and social responsibility, these activities will be perceived as foundational. In the Utopist family firm, none of the three sub-systems is prevalent, either because they have equal weight (which is only possible in theory) or because the family firm is so small the three subsystems overlap completely. In this last case, a discursive approach is needed to create consensus, through a process of sense making and consensus building. Finally, in the Engaged family firm, the family sub-system is prevalent and the values embraced by the family pervade the organization. Here, the family firm will engage in CSR activities because they are a means to embody the family’s values, and they will do so through deliberative democracy, or co-creation, developing globally responsible leadership. These activities go far beyond those undertaken by the other types of family firms and this is coherent with a proactive vision where Family Businesses become political actors and participate directly in public discourses. Important contributions of this work are several: first it recognizes and formalizes differences among family businesses, second the framework allows an understanding of the dynamics (instead of static relationship) between the family and CSR, and third it demonstrates that family firms may represent the best vehicle to support culturally and legally contextually embedded CSR initiatives.

Entrepreneurship contributes to ensuring the growth and sustainability of the business [24, 54-56]. Nordqvist and colleagues, [57] study the succession process as an entrepreneurial process, underlining that succession simultaneously entrepreneurial exit (of the predecessor) and entry (of the successor). There is a large body of knowledge indication how to prepare the successor to replace the predecessor in the roles of management and ownership of the firm, as well as in the role of the head of the family [e.g., 24, 58]. This literature focuses on the individual characteristics of successors (e.g. gender, knowledge and skills) and to the chance of successful succession, In addition, two key assumptions held by the predecessor taint this literature: first that succession must be secured and second that intra-family succession of ownership and management is ideal solution, neglecting the perceptions of the successor and attitude towards succession.

The piece by Radu - Lefebvre and Lefebvre [59] addresses this gap. Their paper focuses on successors’ thoughts and feelings, their perception of their potential leadership role. They find that potential successors have not only differing perceptions compared to predecessors, but also
that there are several perceptions of potential leadership roles. Radu - Lefebvre and Lefebvre offer a typology of next generation’s future leadership projections according to the source of leadership and the leadership mission. For the Protector being a family business leader is perceived as a question of destiny, it is a life-long commitment. The Protector embraces the same key assumptions mentioned above, and will seek to transmit them to the next generation. For the Reformer, being a family business leader is also a question of destiny, but these successors negotiate their leadership role with previous generations, envisioning their role as that of modernizing and developing the business. Opportunists choose to join the family business as a career choice, accepting management transfer only if they will be able to maintain a work-life balance. The Futures of work-life balance [60] have particular implications when “work” is a family business. They see themselves as a link in the intergenerational chain with no particular management ambitions. Finally, Rebels seek to avoid joining the family business as career choice, preferring personal freedom. They study/work in fields far from the family business and may choose to live abroad to keep distance. When they finally do take a leadership role (because of a sudden incident or impossibility of the prepared successor to take leadership) they are perceived as the “prodigal son” by the family and set as precondition the possibility of leaving the leadership role if it is not right for them or for the firm. The important contributions of this article relate to demonstrating that the perception of succession held by the predecessor is shared only with Protector successors, and that there are at least three other types of leadership perceptions. The piece also explores the conditions under which different types of successors accept leadership roles, which definitely enhances our understanding of succession performance.

3.3. of Family Businesses

The futures of businesses (family or not) has been identified as crucial to economies and societies [7]. Considering the weight of family firms in most modern economies, the futures of these businesses is crucial. As we have seen in the above developments, family firm sustainability through intra-family succession is widely perceived as the optimal path for family firms.

The article by Seaman, Bent and Unis [61] examines the case of family businesses founded by the Pakistani community in Scotland. Many of these firms are still in the first generation, and future ownership remains unclear. The future of these firms matters, for both economic and social reasons. Seaman and colleagues draw upon the literature around culture, entrepreneurial intent and aspirations, and family business to develop a foresight framework based on economic conditions and cultural change and offer a typology. Generation one firms are startup and first generation firms which may not plan to pass the business on. In fact, many Pakistani family firm founders have done so by necessity, and their aspirations for their children is to not join the family firm. Divorce, dissolution or death family firms are those which adopt progressive cultural change while embedded in a context of economic prosperity. These firms are very diverse and the family stability is linked to the long term economic prosperity. Succession starters develop ad hoc
means of insuring succession and setting up governance systems. Constrained by economic scarcity, these firms are compelled to develop their business. Finally, the “heritage” business, with its strong formal governance models, rules for the “next generation” to enter the business and strong incentives to conform to tradition, reflects the family firm as it is seen in mainstream literature. Seaman and colleagues go on the project these types in a five year, then ten year futures. The main contributions of this piece relate to the framework offered to understand immigrant entrepreneurship and to how policies can support entrepreneurial initiatives which either aim making the family firm more sustainable (through succession) or to renewing the park of firms by supporting start-up initiatives of second generation immigrants. Today, policy is absent on these fronts in Scotland; it is the communities themselves which provide such support.

Once again considering the weight of family firms in modern economies as well as the ever growing instability of these economies, it is important to understand how these firms react to economic crisis. The paper by Cucculelli and Bettinelli [62] focuses on how family firms react to economic crisis according to learning and internal factors (e.g. CEO’s origin, tenure and turnover). They find first that for the current era poor performance did not lead to learning, even following a CEO change, but also that CEO turnover improved learning when the new CEO was from the owning family and after a certain amount of time (i.e. longer tenure). In their projection to 2025, these authors identify the following trend if Italian family SMEs. These firms mitigate their liability of smallness by developing learning features which improve their flexibility, adaptability, innovative capacity, as well as better performance on international markets compared to larger firms. In their baseline futures Cucculelli and Bettinelli project that family SMEs will need to find a fit between external economic instabilities and internal organizational structures and strategies through governance decisions (in particular those which affect CEO characteristics and tenure), which affect the firm’s leaders’ ability to identify and process signals from the external environment and transform them. The important contributions of this paper relate first to how internal and external factors interact to affect firm success, measured as sales growth. A second important contribution concerns the interaction of governance and learning.

4. Conclusion

This special issue demonstrates the importance continuing to research this developing field. There are great economic stakes. The sustainability of family businesses is a crucial question which affects many modern economies [57]. Indeed, without succession (intra or extra family) many firms will cease to exist, causing a deterioration of the economy. The contribution by Seaman et al. shows that there can be alternatives: the next generation may not wish to take over the family business, but cultural, educational, and economic factors may affect their entrepreneurial intentions and lead them to start their own activity. Cucculelli and Bettinelli show
that family business SMEs can leverage on their governance, in particular the traits of the CEO, to improve the organization’s learning capability and thus resist better to economic instability. The contribution by Radu–Lefebvre and Lefebvre opens a new perspective on succession because it shows that there can be other motives to succession than those explored until now. More research on successor’s motivations can ultimately lead to higher succession rates. In the same vein, the EO/NEO (Barredy) distinction is very useful to understand the options of succession according to system of law and offer contextually adapted governance structures.

There are also great social stakes. In addition to the social consequences linked to the economic factors above (e.g. job loss in the case of firm failure), there are specific social stakes. We see in the contribution by Bergamaschi and Randerson that family businesses are the most suitable vehicle for developing CSR, because first they often adopt spontaneously such behaviors, second they adopt behaviors that are culturally and legally nationally embedded and finally they are perceived as more credible in such behaviors than corporations.

This special issue demonstrates that researchers need to adopt multi-level and multi-disciplinary approaches in order to grasp a meaningful understanding of the phenomena. The contributions offer a multi-disciplinary approach by bringing together perspectives which until now developed independently, challenges the status quo or offers a novel approach. In addition, developing knowledge about family entrepreneurship using a futures methodology has offered a means to unbind, in the sense of removing constraints linked to research traditions in which family, entrepreneurship, and family business have been studied until now. The futures of these fields is moving and intertwining to draw the futures of family entrepreneurship.

The guest editors would like to warmly thank Ted Fuller for accepting to dedicate a special issue to this developing field, as well as for his support and guidance throughout the process. We would also like to thank our reviewers for their precious insights which contributed greatly to the quality of the pieces and the authors for their perseverance. We would like to acknowledge the support of the EMLyon Business School which hosted a paper development workshop and the e-lab of the University of Bergamo which sponsored a PDW at the annual meeting of the Academy of Management (2014) dedicated to this theme.
References


