Entrepreneurship between the 2nd and 4th generations of family businesses

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Abstract:
Aspects related to the entrepreneurship in the context of family businesses have been drawing the attention of researchers both related to the topic of family businesses and to entrepreneurship. It is relevant to understand how it occurs throughout generations of this type of institution. Thus, our paper has as main objective to analyze the entrepreneurship in the context of the second, third, and fourth generation of family businesses. We conducted three focus groups that enabled us to understand the similarities and discrepancies regarding five topics: relevance of the founder, challenges, governance, vision of the entrepreneurship and influence of the heirs that do not work in the family entrepreneurship.

Keywords: entrepreneurship, family businesses, generations, focus group.

Introduction

Entrepreneurship and family businesses are a hot topic. The emergence of a family business is connected to the entrepreneurial behavior of its founder. The degree of and the way to entrepreneur are related to the social, geographical, and economic context, where the company is inserted in. The consolidation of the family business, the development, and the succession across generations leading it are particular stages of this type of organization. Understanding how entrepreneurship occurs across generations of the family organizations is a relevant aspect.

Entrepreneurship is characterized by the capacity of identifying innovative opportunities under uncertainty conditions, while assuming the risks involved. Persistence and vision of the future involve the process of entrepreneuring that results in a new way to carry out a successful work (Hisrich and Peters 2002). These factors are directly related to the continuity of the family businesses, since this organization must constantly identify opportunities and assume risks in uncertainty situations.

According to Schumpeter (1983), the entrepreneur can be compared to the "motor of the economy," an agent of changes. However, how can one multiply this "motor of the economy" across generations in family businesses? The study of

entrepreneurship and family businesses has been intensified and evolved, with the latter presenting significant increases over the last three decades (Wilson 2014).

Understanding the evolution of entrepreneurship in the generational context of family businesses is relevant and necessary, because the entrepreneurship is optimized with the development of the entrepreneurial culture (Cruz, Hamilton, and Jack 2012). Not everyone is born an entrepreneur, but entrepreneurial characteristics can be developed throughout their professional careers, preparing them to assume risks or challenges (Kellermanns et al. 2008; Weismeier-Sammer 2011; Short et al. 2009; Huybrechts, Voordeckers, and Lybaert 2013; Michael-Tsabari, Labaki, and Zachary 2014).

Considering these two points of view, the importance of the entrepreneurial culture and the possibility of developing entrepreneurial characteristics, our aim consists in analyzing how entrepreneurship occurs throughout the 2nd, 3rd, and 4th generations of family businesses. Contextualizing entrepreneurship, as well as identifying similarities and divergences and even characteristics of the 2nd, 3rd, and 4th generations of family businesses can be important to overcome its main challenge, which is the perpetuity of the managerial activity throughout the generations.

It is known that only 33% of the family businesses get to the 2nd generation. These data are aggravated if compared to companies in the 3rd and 4th generations, where the percentages are 13% and 5% respectively (Davis 2014). Moreover, our paper contributes to understand how the future generations understand the legacy of the entrepreneurship left by the entrepreneurial founders of the family businesses and how they can actually entrepreneur while considering the context of which they are part.

In this paper, we address the theoretical assumptions supporting entrepreneurship in family businesses. Next, we describe the methodological aspects outlining the research and detail the findings of our study, focusing on different characteristics that marked the generations of family businesses in which the technique of focus groups was applied. Finally, we show the conclusions and limitations of our research and indicate new issues that deserve to be investigated.

Entrepreneurship in the context of family businesses

The topic of entrepreneurship has always been strongly related to family businesses, since their beginnings are linked to entrepreneurial activities of a founder

who was successful in his/her entrepreneurship, and since they can be transmitted from generation to generation.

Entrepreneurship in the context of family businesses is a wide topic. It covers from the entrepreneurial behavior of the individual and its economic and social relevance (Pistrui, Welsch, and Roberts 1997) to the role of the family as a protagonist of fostering this culture and entrepreneurial behavior of business families (Michael-Tsabari, Labaki, and Zachary 2014).

The organizational culture and the entrepreneurial process specifically are radical elements of change in the context of family businesses, as well as the existence of cultural patterns that can preserve the traditional form of making businesses or instigate changes in the company, strengthening the entrepreneurship in family businesses. Having an open and explicit culture for the development of the learning capacity in the continuous growth of the organization is a positive characteristic that contributes to a family company to be recognized as entrepreneurial. Besides being recognized for their entrepreneurship, they will be prepared for future uncertainties, and faster in the recurring changes of the so-called new economy (Hall, Melin, and Nordqvist 2000; Pistrui et al. 2001).

On the other hand, the entrepreneurial culture is transmitted through long and continuous interactions between generations, when searching and identifying opportunities. Literature about the entrepreneurial culture of family businesses highlights the relevance of the founder and the current generation in charge for the formation of this culture. This culture is based on the search and discovery of opportunities leading to the creation and acquisition of new entrepreneurships by the business families through their generations (Cruz, Hamilton, and Jack 2012).

Motivations to entrepreneur a family entrepreneurship and continue with it

Entrepreneurship in family businesses is supported by an extensive network of relations based on the family. These organizations are characterized by the search for safety and economic and financial independence, need of accomplishment, status, and prestige of the family unit (Pistrui, Welsch, and Roberts 1997; Pistrui et al. 2001). The persistence and the use of the family network as a source of both human and financial capital is also present, with this capacity of attracting family resources are one of the major reasons for their continuity and success (Dyer and Mortensen 2005; Pistrui et al. 2001).

This capacity to attract family resources must be understood in a way that conventional boundaries are surpassed. Those family resources beyond the normal boundaries of the business must be considered. Family members that are not directly involved with the operation offer a range of very important resources, without necessarily incurring in typical risks with external connections to which the family entrepreneurships are commonly exposed.

Family Entrepreneurial Team (FET) is the term used to name the family members that support the entrepreneurial processes who are not necessarily involved with the operation of the family business in itself, but with the daily activities of managing the current and consolidated family business (Cruz, Hamilton, and Jack 2012). The entrepreneurial processes consist of 7 main stages: (i) existence of opportunity; (ii) discovery of opportunity, (iii) decision to exploit opportunity, (iv) resource acquisition, (v) entrepreneurial strategy, (vi) organizing process and (vii) performance (Shane 2000). Regarding the activity, the support, and the contributions from the FET to the family businesses with which they are connected, we can emphasize: (i) quality of the help given; (ii) heterogeneity of the points of view; (iii) speed and low cost, that can also be non-existent (Anderson, Jack, and Dodd 2005).

The family support is also a relevant resource, because it contributes for the family members to take entrepreneurial decisions. In other words, it is safe to say that this support and preparation to entrepreneur is directly related to the entrepreneurships they begin, along with the respective risk-taking. This support includes a behavioral element, in the shape of the family's compromise and belief on the entrepreneur, and a physical element, in the shape of a work that directly (by helping in the task of entrepreneuring) or indirectly (while assuming a portion of the risk) furthers the development of the entrepreneurship (Chang et al. 2009).

The facility the founders have to attract family resources is the relevant element for the development of the family entrepreneurship, but it can cause negative consequences, such as blurring between family’s and company’s boundaries, which in turn strength the complex family relationships (Davis and Harveston 2000). An important factor comes overtime, once the family business is consolidated, and the behavior of the founder entrepreneur can become more conservative. Thus, it is unquestionable the need of the founder entrepreneur to shape the family organizational culture, since the concentration of power in his/her hands can intensify the conservatism and suffocate the entrepreneurship for the generations to come (Zahra 2005).

The involvement of the generations in the business for the entrepreneurial behavior is positive. However, it is noteworthy that the involvement of the family members with the business can cause conflicts due to the paternalistic assistance that some members receive, regardless of the result they produce for the family entrepreneurship. Kellermanns et al. (2008) state that the family CEO presents motivation to pursue entrepreneurial attitudes, with the conscious that this behavior will be positive to keep the business healthy for future generations of the family.

The influence of the entrepreneurial activity across the generations in the family businesses

The CEO's behavior and the degree of family's influence are decisive factors for the entrepreneurship of the family businesses while being developed. Intrinsic characteristics of the CEO, as age and stability, and the degree of the family's influence in the company, indicated by the number of generations involved with the business, can interfere with the growth of the business. Contrary to what is expected, there is no significant relationship between the CEO's age, the entrepreneurial behavior, and the company's growth. Nonetheless, it is known that the time spent in that function can influence negatively the entrepreneurial behavior of the organization (Zahra 2005; Kellermanns et al. 2008). This can be minimized when the CEO is not a family member, because in the beginning of his/her career in a company this CEO presents a higher entrepreneurial behavior and appetite for risk than the CEO that is part of the family. However, overtime, this aggressive behavior of the non-family CEO tends to diminish, showing similar levels to the ones of the family CEO (Huybrechts, Voordeckers, and Lybaert 2013).

Casillas, Moreno, and Barbero (2010; 2011) comment that the growth rates are higher between the family businesses characterized as being large and already consolidated companies. However, the reason for this growth related to the entrepreneurial orientation can be confirmed only in the second generation of family businesses. The large companies that are mature in management, but still in the first generation, do not present the same speed of growth.

The dynamics of different interactions, possible in family businesses, as the role of the potential successors and their relationship with the founder entrepreneurs and other family members that work in the company, must be considered as a strong influence on the growth of family businesses, more than the adoption of innovative

technologies and activities (Davis and Harveston 2000). When the entrepreneurship is observed across generations of family businesses, the focus of activity changes from the level of company to the level of the family, and the analysis is given a deeper comprehension of the capacity of family businesses in creating value across generations (Zellweger, Nason, and Nordqvist 2012).

In order to think about the growth of the family organizations throughout the generations, we must understand the transgenerational entrepreneurship. It reveals the extended entrepreneurship, both from the ones that follow the executive activity internally, and the ones that develop their careers in a business different from the original business of the family. Thus, it is important to understand that, besides the entrepreneurial orientation alone, we must consider the family entrepreneurial orientation (OEF) (Zellweger, Nason, and Nordqvist 2012).

Michael-Tsabari, Labaki, and Zachary (2014) also include in the theoretical discussion the role of the family in the entrepreneurial behavior of family businesses. The results of their studies reveal that the entrepreneurial behavior in family businesses throughout generations does not arise only in response to the business' challenges, but to contemplating the family's challenges.

Five dimensions of the elements contribute to the entrepreneurial behavior throughout generations, that is, the set of elements of entrepreneurial orientation (EO): (i) autonomy, (ii) competitive aggressiveness, (iii) innovation, (iv) proactivity, and (v) risk-taking. These five dimensions are observed uniformly in family businesses, but the non-family businesses present moderate levels regarding autonomy, proactivity, and risk-taking (Short et al. 2009).

Methodology

In order to contemplate the proposed objectives, we conducted an exploratory study based on the technique named as focus group. This technique consists in interviews performed by a moderator, in a natural, non-structured way, with a small group of people able to talk about a certain subject. It aims to reach a deep, multidimensional, non-dichotomous, focused, and sequential vision of the topic, while trying to understand what the people have to say about it and why (Morgan and Krueger 1998; Krueger 1994). We chose this technique, because it enables us to discover the complexity of visions of the actors and their involvements with their stories, presenting congruencies and divergences.

After the clear specification of the aims, our planning and management of the focus group, we attempt to define the recruitment of the team and the participants. The team should have substantial knowledge about the topics being discussed, and the group of participants should be from the same social-economic and cultural level, so that there was no inhibition in their comments. Thus, this study used the snowball technique to recruit the participants. We contacted consultants and researchers of family businesses, members associated to the Family Business Network (FBN), and graduate and post-graduate students of Management of Family Businesses, so that they would indicate heirs of family businesses that met the profile described below:

a) Member of a family business;
b) Part of the group of the second, third, or fourth generation;
c) Working in the family business or in their own business for at least 3 years.

We did a pre-testing focus group that did not have significant changes, so it was added to the results (Krueger 1994). A brief background questionnaire was used to collect demographic data of the participants (Gaskill 2001). Based on these criteria, we completed three focus groups, comprehending three different generations, that is, members of the second, third, and fourth generation. It is important to highlight that all participants were in the same age group, that is, all belong to the same political, economic, and social context. We show these characteristics in Table 1.

Table 1:

Demographic data of the participants of the focus group

	Second Generation	Third Generation	Fourth Generation
Age of the heirs	23-26 years-old	21-28 years-old	24-35 years-old
Age of the company	20-31 years	34-66 years	55-83 years
Family ascendancy	Italian and Portuguese	Italian, Austrian, German, and Swedish	Italian, Polish, Portuguese, and German
Work in the company	All work in the company	Some do, others do not	Some do, others do not
Education	Graduation and Specialization		

Source: Research data.

It is important to add that the research occurred in Porto Alegre, a city that is located in the South of Brazil. The participants of the focus group, described in Table 01, are from several cities of the same Brazilian region to which Porto Alegre belongs,

but they cannot be mentioned in order to keep the identity of the respondents confidential. It must be said that the South of Brazil was largely colonized by Italian, German, Polish, Portuguese, and Austrian people.

As a discussion script, the expressions shown in Figure 1 were used:

Figure 1:
Words used in the focus group

The relevance of the flexibility in the course of the dynamics was considered when dealing with topics not foreseen beforehand, while providing a basis, so the moderator could conduct the group (Krueger 1994), thus making the participants feel free to express their opinions and tell their stories, adding details that could result in unexpected discoveries.

Each focus group included three or four participants of every generation. Each session lasted for one-two hours, with a moderator and two observers for a better

description that was not restricted to verbal accounts. Since registering the discussion is a very important step towards the later data analysis, all interviews were recorded and later transcribed. This analysis considered the context of how the comment was made and the meaning of the words used by the participants.

Given the qualitative approach, the validity and reliability of the method was considered with great care. Descriptive and interpretive reporting methods (Krueger 1994) were used to analyze the results of this study. We compared the different findings of the researchers who participated in the focus group, aiming at establishing a high level of reliability in the reported results. Therefore, we drafted a summary with the observations and comments made by the participants of the focus groups that we used to interpret the results (Gaskill 2001).

Discussion

When analyzing the entrepreneurship in the context of the second, third, and fourth generation of family businesses in the South of Brazil, we observe similarities and discrepancies between them regarding four topics: relevance of the founder, challenges, governance, vision on the entrepreneurship, and influence of the heirs that do not work in the family entrepreneurship.

Starting from the relevance of the founder, the perception of it as a reference was unanimous across the three generations, both for the company and the family. For the company, the founder has the role of leadership, and for the family, as a support for all family members, assuming a character of perpetuity. A unison discourse summarizing this ambiguous role of the founder is that, "if the company goes badly, it's because the family is going badly. The name of the family is in the company." Thus, we see that both the legacy of the founder and the name of the family are something to be proud of by all. The business is not only an income source, but also an extension of the family and their reputation in the community, as well as a way to give support to the youngsters and other family members (Miller et al. 2011). With these reports about reputation, it is important to highlight the vision by Clinton et al. (2013): reputation is an influencing resource of the family and their relevant entrepreneurial activity that can be classified into three different types: (i) long-term orientation, (ii) trustworthy business partners, and (iii) entrepreneurial spirit, all essential elements for the entrepreneurial activity.

As well as the history of the founder, their entrepreneurial spirit and their legacy strength the business and captivate their relatives, their lack of explicit knowledge is still one of the biggest challenges for the family businesses. On the other hand, there is a preoccupation of the upcoming generations in formalizing and improving the management processes, so that the transferal of tacit knowledge for the upcoming generations indeed occurs. However, we identified different objectives according to the evolution of the family entrepreneurship. In the second generation, there is still the preoccupation in organizing the most basic aspects related to the finances of the company. This difficulty is shown in the similar report from some participants: "my father says that 'money has no label in it, it's all the same" (so, there is no problem if I mix the company's accounts with the personal accounts). The third generation is worried about the management processes while the fourth generation tries to maintain a rhythm of innovation, sustainability, expansion, and diversification of the businesses, mainly through the formation of new leaderships.

Authors related to the topic of entrepreneurship in family businesses agree that the value play an important role in the family entrepreneurships. This fact was confirmed in our research. All participants from all generations highlighted the need to keep the values of the founder as a key element to guide the decision-making about the growth of the organization. Especially the fourth generation, that did not meet the founder, reported carrying out a specific work to rescue the values of the founder. These values were identified in this study as being: work, religion, and innovation. In relation to the issue of values, it is important to highlight that these will become significant resources for the transgenerational entrepreneurship when they are transformed in virtues able to strength relevant performances (Sharma et al. 2013). In addition, to think about the growth of the family organizations across generations, we must understand the transgenerational entrepreneurship. It reveals the entrepreneurship throughout the generations, both from the ones following the executive activity in the family business, and the ones that developed their careers in a business different from the original business of the family. It is important to understand that, besides the entrepreneurial orientation, we must also consider the family entrepreneurial orientation (FEO) (Zellweger, Nason, and Nordqvist 2012).

In order to deal with the challenges, the level of governance adopted by the companies is a distinctive factor. In second-generation family businesses, governance is non-existent. Strategy and company succession occurs deliberately, mainly due to needs

and opportunities. The third generation has principles of corporative governance, whether with external advisers or with embryonic governance structures, such as administration, family, and fiscal boards. Besides, in the fourth generation, they are worried with the power transition to non-family executives and, lastly, with public listing through an initial public offering (IPO).

For the heirs, there are discrepancies in their objectives and in their perception of the entrepreneurial activity. We identify the second generation with a total focus on the family businesses, seen as an opportunity and something to be proud of. According to one of the participants, "I work in the family business, am proud of it, and do my utmost; however, some relatives exploit the family business." Family founders are entrepreneurs and feel proud for having provided the growth of their businesses, creating an identity and values that are transmitted across generations (Miller et al. 2011).

For the third and the fourth generations, the family business is an option, but the level of management is different. The heirs of the third generation, in case they take over the company, feel pressured by the collaborators and by the relatives, and believe that they cannot make mistakes. As a result, some successors may choose not to participate in the family businesses: "the biggest challenge is to make our father understand that I don't want to make a speech by the end of the year, I don't want to lead." The fourth generation has also made this decision, but in relation to delegate the management to non-family executives.

We see that overtime the vision of entrepreneurial activity in the generations becomes wider, beyond the limits of the original family business. On the other hand, the presence of governance structures is more frequent in companies of more advanced generations. Thus, it is interesting to relate governance level of the generations and the vision they have on entrepreneurship, such as Memili et al. (2013) emphasize that the need for entrepreneurial activities from the individual to the collective. Therefore, an entrepreneurial orientation starting from the family must exist. Authors indicate the Family Office, structure that was not mentioned by any of the participants, as a key element for the support and the family entrepreneurial orientation. *There are Family Offices for about two centuries and they represent a substantial impact on the richness and prosperity of business families supporting it.*

The facility to attract family resources by the founders can often cause some confusion when understanding the family and company boundaries, while generating

consequently complex family relationships (Davis and Harveston 2000). In the second generation, we see that the relatives are not involved with the company management, and end up by not contributing for its development, but understand that the company must supply all their financial needs. Interestingly, in the third and fourth generations, this issue is inverted and a significant contribution occurs separating the roles of heir, shareholder, and manager. The fourth generation has also emphasized the relatives who chose to follow their careers in a business different from the one of their families and end up by contributing positively, while taking the role of shareholders with authority.

In Table 2, we present the main points showing the convergences and divergences according to the generations:

Table 2:
Convergences and divergences according to the generations

	Second Generation	**Third Generation**	**Fourth Generation**
Founder	Role of leadership, support, and perpetuity, both for the company and the family. Source of the main values of the family and the company		
Challenges	Organize the aspects related to the finances of the organization	Define and formalize management processes	Form new leaders
Governance	Non-existent	External advisers Administration board	Administration board Family board Business Partners board Fiscal board
Vision on the entrepreneurship	Occurs only through the family business	The family business is one of the options to entrepreneur, but s/he will not be able to make mistakes and must take a leadership position	The family business is one of the options to entrepreneur, taking leadership positions or delegating to executives with a more suitable profile
Influence of the heirs that do not work in the family entrepreneurship	Null or negative, while only demanding financial resources	Positive and causing the separation into three subsystems: family, company, and society	Positive, contributing for the development of family entrepreneurship

Conclusions

With this research, we understand that entrepreneurship in the context of the family businesses evolves from an isolated entrepreneurial activity to a collective one in an entrepreneurial family structure, permeated by a strong culture towards the entrepreneurship.

We can see that the entrepreneurial characteristic of the founder and the values disseminated through their attitudes are the only factors remaining throughout the generations. The challenges and the levels of governance end up by taking proportions that are more complex. The vision on the entrepreneurship in the second generation is more restricted compared to the upcoming generations. That generation understands that entrepreneurship only occurs inside the own family business, while the third and the fourth generations understand that it can occur beyond the boundaries of the family entrepreneurship. With the growth of the business and the family, there is the need to formalize business and family management process, while the governance structures are, little by little, seen as important allies.

The relationship between the involvement of the generation in the business and the entrepreneurial behavior is positive. However, in the second generation, some family members, who do not work with an executive activity in the family entrepreneurship, end up by contributing nothing or even negatively. This lack of contribution from these members can be due to the restricted view by some members of the second generation that can only practice their professional activity in their own original family business. Another consequence is the conflicts that the involvement of the family members with the business can cause due to the paternalistic assistance that some members are subject to, regardless of the result they generate for the family entrepreneurship.

We see that in the third and fourth generation, the negative points mentioned above were minimized. With this research, we question if adopting structures and governance processes can effectively minimize the impact of this negative relation of the family members with the business and positively influence the entrepreneurial activity of the family businesses as a whole. When determining these specific forums to address topics about family, society, and business, it is possible to deal with the natural conflicts due to the relation of these three components of the family business properly and strength the entrepreneurial activity and the growth of the family entrepreneurship.

Thus, we suggest future studies to investigate the relationship between the governance level and the intensity of the entrepreneurial activity of family businesses. Other perspectives of the neo-institutional theory, such as path-dependence and institutional entrepreneurship can be useful to explain the topic in the context of the family businesses.

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