Entrepreneurial Exit in Family Firm Portfolios

By

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Aim of the paper (max. 500 words)

Entrepreneurial exit – i.e. "the process by which the founders/owners of privately held firms leave the firm they helped to create; thereby removing themselves, in varying degrees, from the primary ownership and decision-making structure of the firm" (DeTienne, 2010: 204) – is viewed as an important element of the entrepreneurial process (Wennberg, 2008; Wennberg, Wiklund, DeTienne and Cardon, 2010; DeTienne, 2010; DeTienne and Cardon, 2012). However, with few exceptions (e.g. DeTienne and Chirico, 2013; Sarasvathy, Menon and Kuechle, 2013), existing research has focused primarily on entrepreneurial exit from a single venture, while overlooking the process of exit occurring within a portfolio of firms. Portfolios are very common in many of the world‘s developed and emerging economies (Carter, 1998; Westhead andWright, 1998; Manikutty, 2000; Ward, 2000; Jaffe and Lane, 2004; Iacobucci and Rosa, 2005). Additionally, little research (e.g. De Tienne and Chirico, 2013; Nordqvist and Melin, 2010; Salvato, Chirico and Sharma, 2010; Nordqvist, Wennberg, Bau and Hellerstedt, 2013) has focused on the phenomenon of exit in family firms – although this form of business has an important economic impact worldwide (La Porta, Lopez-de-Silanes, and Shleifer, 1999). Accordingly, in this study our focus is on entrepreneurial exit in family firm portfolios – family entrepreneurs who retain ownership and control of multiple businesses within the family (Rosa, 1998; Westhead andWright, 1998). Both theoretical and empirical research suggests that the context of family firms has a profound influence on portfolio entrepreneurship as well as on exit strategies (Carter and Ram, 2003; Mulholland, 1997; Jaffe and Lane, 2004). In family firms the emotional logic (the non-financial aspect attached to the firm; Astrachan and Jaskiewicz, 2008; Gomez-Mejia et al., 2007) often prevails over the business logic, with different degrees of emotional attachment of family owners, thus making exit options especially challenging. But although there are studies showing that family owners show different emotional attachment, it is unclear what the underlying factors of these attachments are. Instead, the literature offers a vivid account of different degrees of emotional ties with the help of different theories (Gomez-Mejia et al., 2007; Schulze, Lubatkin and Dino, 2003). However, alternative possibility to understand is through the context of portfolio family firms, as this become even more interesting with the presence of multiple businesses and extended family with different degrees of emotions attached with different businesses. In particular, family owners have the

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challenge to choose between the businesses (i.e. the core business and/or satellites) from which to exit (DeTienne and Chirico, 2013) with different people extended to different businesses may have different impact. Thus, understanding exit in family firm portfolios is a vital issue, given its complexity and importance in the society and its impact on the economy help us explore our research questions (e.g. Sarasvathy, Menon and Kuechle, 2013). Accordingly, it is important to track the process of exit through the emerged framework that can explain degrees of emotional attachments and exit strategies, deemed necessary (see Nordqvist and Melin, 2010; DeTienne and Chirico; 2013; Carter and Ram, 2003).

Contribution to literature (max 500 words)

First, we contribute to the *entrepreneurial exit* literature by exploring the exit process in the context of family firms. Exit strategies have been explored in the strategy and entrepreneurship literatures but notably very limited empirical or conceptual studies are present in the context of family firms (e.g Salvato et al., 2010). This addresses an important research question given that the present knowledge about the process of exit in family firms is scarce (Nordqvist & Melin, 2010). Our tracking of the events by applying SEW and resource management arguments, helped us unravel the process through which family firm portfolios embark on different exit strategies in order to retain the portfolio .

Second, we contribute to the *portfolio entrepreneurship* literature by investigating it in the context of family firms. Portfolios are an important context and especially in the emerging economies, the phenomenon is interestingly common and important to address (Jaffe & Lane, 2004). Research focusing on the process of portfolio entrepreneurship, along with all the factors influencing this phenomenon, lacks presence in the literature. Therefore, the research provides a holistic picture of portfolio entrepreneurship, with the addition of the family firm context (Low & MacMillan 1988; Westhead, Ucbasaran & Wright, 2003).

Third, we contribute to the *SEW and* resource management literatures. First, we add in the understanding of the notion of different degrees of SEW in terms of emotional depth. We have found that the emotional depth attached with a certain business affects the exit process. We also found that emotional depth influences beyond the generational aspect and there are factors primarily responsible for the higher attachment to the core business. Actually, differently than most theoretical and empirical previous studies (Chirico and DeTienne, 2013) our data reveals that across generations family owners get more attached to the core business. Second, our case studies showed that family owners not only shed resources which are not productive, but sometimes they also shed the productive ones in order to save their businesses. This represents an important add to resource management arguments which assume that resource management and shedding are always driven by decision makers' financial logic.

Fourth, we contribute to the *family firms* literature, an important area where very little is known about exit and portfolio entrepreneurship (Nordqvist & Melin, 2010; Sieger et. al, 2011). In particular, our study also complements and extends the recent works of Salvato and colleagues (2010) and DeTienne and Chirico (2013).

Fifth, most of the family business and entrepreneurship studies have focused on developed economies or we have Western dominated views about family business. However, the importance of ties of families in the Eastern culture and emerging economies is worth focusing on, as East is famous for its collective culture and strong family bonds. This study fills this gap (Jaffe & Lane, 2004). Therefore, research conducted in the context where the origins of the Eastern culture of family bonds prevail has allowed us to explore the phenomenon of entrepreneurial exit in the context of portfolio family firms at its roots.

Data and results (max. 500 words)

Our study seeks to understand a) *why* and *how* entrepreneurial exit occurs in family firm portfolios, and b) *why* family owners exit from some satellites or core businesses and not from others. Given the confines of extant theory, we conducted a multiple-case, inductive study and investigated five portfolio family businesses from Pakistan, where the family's role is more tightly knitted within the business due to a collectivistic culture. We used five different data collection strategies; Interviews (27 in-depth interviews), Observations (three rounds of field visits from 2010 to 2013), Websites, Archival Documents and Social media accounts to follow family owners. The setting for this research is portfolio family firms, which is interesting and unique, having several advantages, especially considering the exit phenomenon, where we had a chance to explore multiple exits in portfolio family firms. As in this case the context offered some distinctive evidences of observing total of 25 exits in the sample of our study.

Through the findings of the study, resulting propositions and the process model, we shed some light on the phenomenon of exit in family firms in general and family firm's portfolio in particular. A central insight is that given the family owners' attachment to the founder's core business, such firms are more likely to exit from satellites than from the core business, even though the latter is performing poorly. That is, these family firms may seek such strategies due to high emotional exit costs attached to the core business than the satellites. Surprisingly, we also found that the tendency of not exiting from the core business increases across generations and these patterns influence exit events and decisions. A second insight is that family firm portfolios when facing a difficult and/or failing situation, prefer to exit from satellites, even though they are successful ones, in order to save the core business. This insight is important because prior literature does not highlight much on why family owners exit from successful satellites. Interestingly, our data also reveals that when selecting the satellites from which to exit, the owners of family firm portfolios choose satellite's established outside the family. Furthermore, family owners of portfolio family firms also show reluctance to exit from the satellites which they have directly founded. A third insight is related to the importance of shedding resources for sustaining or retaining the portfolios. This insight challenges the established assumption that owning resources is fundamental for the emergence and existence of portfolios (Wiklund and Shepherd, 2008). Our work underlines the importance of efficiently managing resources (Sirmon, Hitt and Ireland, 2007) but also shed them when unproductive Surprisingly, we found that family owners in family firm portfolios not only shed the portfolios' unproductive resources, but sometimes the productive ones as well for the revival of the failing core business (Trahms, Ndofor and Sirmon, 2013). To the best of our knowledge this is the first study that integrates both the socioemotional wealth and resource management perspectives to explain the complex phenomenon of exit in family firm portfolios.

Discussion and practical implications (max. 500 words)

Based on the five cases from Pakistan, we explored the entrepreneurial exit process in family firm portfolios and why these firms exit from some specific satellites and show reluctance to exit from their core business. One of the unique aspect of our study is to look at entrepreneurial exit in the setting of family firm portfolio instead of just observing exit from a single venture. Thus studying multiple exits take us beyond the conventional studies on exit. By doing so we found that these firms are involved in shedding resources in quest of saving their core business, at the same time they shed resources from some of the successful businesses. The findings show that by doing so, these firms adopt strategies triggered by emotions, but achieved through the process of resource shedding, that is, evaluation and selection. Furthermore, most of family owners' considerations depend from their emotional attachment with the core business, regardless of being successful or not. We grouped these emotional and strategic patterns as *emotional depth* and *exit strategies*. Emotional depth shows the degree of attachment of family firm owners towards their core business. Exit strategies on the other hand are needed to sustain the core business and portfolio through evaluation and selection of the resources to shed.

Our research, like any other study, has some limitations. However, these limitations open up doors for the future research. First, the levels of analysis are the family and business for this research. However, there are indications for taking into consideration the individuals in the family as the level of analysis as well. Second, this research is conducted in a specific setting and culture, which can be taken as an opportunity as well as a limitation. For instance, further research in a similar context is needed in order to know how these findings are similar or different from this study. Finally, we believe that narrative analysis has provided some revealing insights to the phenomenon of entrepreneurial exit in the context of portfolio family firms. However, it is encouraged to take into consideration other methods to investigate the entrepreneurial exit in the context of family firm portfolios.

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