ENTREPRENEURIAL LEGACY: HOW FAMILY FIRMS NURTURE ENTREPRENEURSHIP IN SUCCESSION

by

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ABSTRACT

Although entrepreneurship helps firms adapt to change, compete, and survive, research shows that family firms are less entrepreneurial, on average, especially after the founder departs. There are notable exceptions, however, and so we ask: How do some family firms nurture entrepreneurship in succession to support family longevity? As a step towards answering this question, we conducted in-depth interviews with owners and (potential) successors in 21 German wineries that are, on average, in their 11th generation. We theorize that some families possess an *entrepreneurial legacy,* which we define as the family's narrative of past entrepreneurial achievements or how it recovered from perilous times; this narrative motivates and gives meaning to entrepreneurship. Large and cohesive families with entrepreneurial legacies implement a sequence of four strategic activities in ways that nurture entrepreneurship in the next generation supporting successful successions and family firm longevity.

1. Aim of the paper

Sadly, while family-owned and managed firms are among the most significant in terms of their worldwide economic impact (Ifera, 2003), they engage in less entrepreneurship, on average.

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Compared to non-family firms, family firms invest less in innovation, receive fewer patents, and their patents offer less radical contributions (Bertrand and Schoar, 2006; Block et al., 2013; Bloom and Van Reenen, 2007; Morck et al., 2005). Moreover, on average, family firms enter fewer new markets, are slower to enter when they do, and grow more slowly after new market entry (e.g., Gomez-Mejia et al., 2010; Graves and Thomas, 2004; Schulze et al., 2003). Further, families' commitment to entrepreneurship declines precipitously once control is passed from the founding to later generations (Block et al., 2013; Gomez-Mejia et al., 2007; Miller et al., 2007).

Despite empirical evidence that family firms are less entrepreneurial, on average, many family firms compete aggressively by repeatedly engaging in entrepreneurship, often across multiple generations (Miller and Le Breton-Miller, 2005; Nordqvist et al., 2013). For instance, the Rothschild family not only managed to remain entrepreneurial and grow for several generations, but family members rebuilt their bank twice: once after it was seized by the Vichy government in 1940 and a second time after the French state nationalized it in 1980 (Bellow, 2003; Lewis, 2007). Thus, whereas the average family firm might engage in less entrepreneurship and lack the capacity to nurture it in the next generation, some family firms do behave entrepreneurially and do so repeatedly across multiple generations which supports their longevity. What is not known is how these families nurture entrepreneurship in succession.

Two literatures take a partial step toward describing how some families might nurture entrepreneurship across generations (hereafter, also "transgenerational entrepreneurship"). First, research on entrepreneurship in family firms has identified family (i.e., family unity – Eddleston et al., 2012) and firm (e.g., organizational culture – Zahra et al., 2004) attributes that are associated with entrepreneurship. Second, succession research describes processes that founders use to successfully transfer ownership and control to subsequent generations (e.g., Handler, 1990). This research also identifies characteristics of the family, the successor, and the predecessor-successor relationship that improve the likelihood of a successful transition (e.g., De Massis et al., 2008; Le-Breton Miller et al., 2004). Together, these research streams (1) identify attributes that facilitate entrepreneurship in some family firms and (2) explain how some families successfully transfer ownership and control across generations, but neither addresses the question of how entrepreneurial families nurture *entrepreneurship* across generations. Thus, our guiding research question is: How do multi-generation family firms nurture entrepreneurship across generations?

2. Contribution to literature

To develop theory that explains how some firms nurture entrepreneurship across generations, we draw upon imprinting theory (Marquis and Tilcsik, 2013) and 21 case studies built from in-depth interviews with the owner-managers and potential successors of multi-generation family-owned and managed German wineries. Our central theoretical contributions are to: (1) identify a key factor – that we call: *entrepreneurial legacy* – that helps distinguish between more and less entrepreneurial multi-generation family firms, and to (2) explain how multi-generation family firms implement a sequence of four strategic activities that nurture entrepreneurship in the next generation helping implement successful successions.

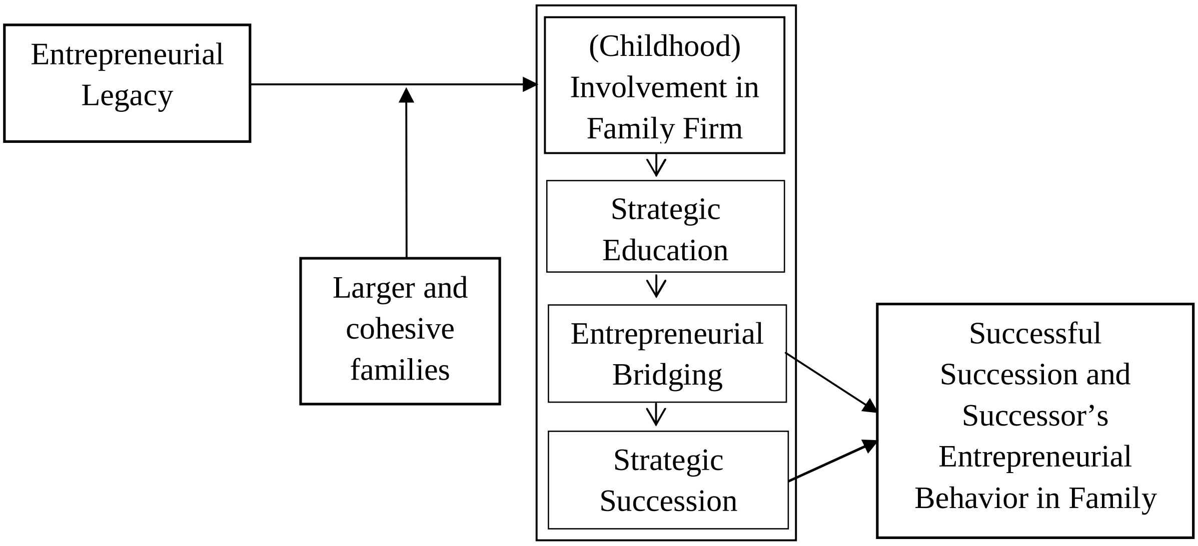
We define entrepreneurial legacy as the family's narrative of past entrepreneurial achievements or how it recovered from perilous times; this narrative motivates and gives meaning to entrepreneurship. Among those firms with an entrepreneurial legacy, families that are both large and cohesive are best poised to successfully nurture entrepreneurship in the next generation, and they do so through a sequence of four strategic activities – i.e., childhood involvement in the family firm, strategic education, entrepreneurial bridging, and strategic succession. These activities not only motivate entrepreneurial behaviors of the next generation but also family succession.

3. Data and results

We investigated one of the oldest industries still in operation in Germany, the wine industry, which dates back to the Roman Empire. Five criteria were used to select firms for our study. First, firms had to be SMEs but large enough to be the family's primary source of income. Second, the firm had to make wine. Third, included wineries had to be 100 percent family owned. Fourth, since founder-controlled firms (with or without other family members) behave differently and engage in more entrepreneurship than later-generation family firms (Miller et al., 2007, 2011), we focused on family firms that were at least in their third generation. Finally, we restricted our sample to firms in which the senior generation was approaching succession. Applying these criteria, we were left with a set of 45 wineries that are listed as large wineries in the Gault Millau (2009). 21 families of these families agreed to participate in our study.

Based on 48 interviews and 42 additional interactions with family members from these 21 wineries as well as 33 visits to the wineries plus archival data, we developed 21 case studies. Out of the 48 interviews, 37 were with family owners and/or potential successors, the remaining 11 interviews were conducted with industry experts. The interviews with the family members yielded 38 hours of taped-recorded interviews that were transcribed into 695 1.5 spaced pages of text. The interviews took an average of 70 minutes. The archival data we collected came from annual wine guides, federal statistics on German wineries, government reports, tourism agency information on German wine regions, winery homepages, wine journals, etc. The 21 firms that participated in our study were, on average, in their 11th generation, and ranged from 3rd to 33rd generation. Incumbent owner-managers averaged 59 years of age. All of them were in or approaching succession.

We analyzed the data for the 21 cases them with an inductive and interpretive approach. Our results indicate how some family firms remain entrepreneurial after succession. First, the most entrepreneurial families possess an *entrepreneurial legacy* comprised of narratives about the family's past entrepreneurial achievements or how it survived perilous times. Second, among families with an entrepreneurial legacy, those that are also large and cohesive engage in four strategic activities that nurture entrepreneurship in the next generation. More specifically, the first activity – childhood involvement in the family firm – imprints the family's entrepreneurial legacy, and thereby motivates and gives meaning to future entrepreneurship. The second activity – strategic education – provides the next generation with the education and experience needed to recognize opportunities related to the family business. The third and fourth activities give successors the resources they need to pursue recognized opportunities. Strategic bridging preserves successor's time once they return to the family business and thus gives entrepreneurial capacity for new initiatives that result in entrepreneurship. Strategic succession preserves capital (no buyouts) and allows the successor, as a key resource, to stay focused (his/ her partner is integrated in the family and firm). Together, these strategic actions give successors the (1) motivation, (2) education and experience, and (3) resources needed to identify and exploit entrepreneurial opportunities – all prerequisites for entrepreneurship (e.g., Haynie et al., 2008). Entrepreneurship, in turn, enables to rejuvenate the family firm contributing to both, the success of succession and the sustainability of the family firm. The following figure summarizes our results.



4. Discussion and practical implications

Because so many family firms fail to achieve succession, research has developed prescriptions that, when followed, will increase the probability of success. These prescriptions, however, do not explain how families encourage entrepreneurship in the next generation. Entrepreneurship, however, might be crucial for successful succession and firm longevity. Our study shows that while transgenerational entrepreneurship is difficult, it can be accomplished if entrepreneurs take a long view. First-generation founders hoping to do more than pass ownership and control to the next generation need to realize that nurturing entrepreneurship among family members starts at birth and takes at least 20 to 30 years. Thus, whereas many founders might feel uncomfortable with "business talk" at home or advertising their success (and failures) at the dinner table, this appears to be exactly what is needed in order for family narratives to take root.

Further, whereas boundary theory says that employees are better off keeping boundaries between work and family (Ashforth et al., 2000), such practice appears unhealthy for transgenerational entrepreneurship where childhood involvement is essential to motivate children to focus on an entrepreneurial path.

Our concepts of entrepreneurial bridging and strategic succession also have important practical implications for first-generation entrepreneurs undergoing succession. Our results suggest that a very important opportunity for entrepreneurship is lost if this time is treated only as a time for the predecessor to teach the business to the successor. Assuming that the successor knows the business (through childhood involvement) and has received a strategic education, this should be a time for predecessors to encourage successors to use their knowledge to enhance the business while protecting them from the burdens of day-to-day management.

Finally, although primogenitor might cause significant conflict in many modern families, parents need to plan early to find other ways to insure strategic succession. Perhaps control and ownership rights can be unequally distributed so that all assets stay with the business, but the non-successor children retain residual claims as investors. Alternatively, families might start early discussions about the equal distribution of opportunities rather than wealth – perhaps sending the first-born son to a prestigious law school creates as many opportunities as preparing the second-born daughter to take over the family business *en toto*.

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