A farewell to the business: Championing exit and Continuity in Entrepreneurial Family Firms

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What factors influence exit from the founder's business and subsequent entrepreneurial renewal in a generational family firm? Guided by this research question, we trace the development of the Italian Falck Group from its inception as a steel company in 1906 – ascension as the largest privately owned steel producer in Italy – losses in the 1970s and 1980s leading to business exit from steel industry in the 1990s – followed by successful entry in the renewable energy business. A combination of insights from the literature and triangulation of data from multiple primary and secondary sources leads to the development of a model describing how inhibitors of exit from the founder's business can be transformed into facilitators of change. The critical role of farsighted 'family champion of continuity' is found central in redirecting the family from its anchoring in past activities to focus on future entrepreneurial endeavours. While the commitment to the founder's business continues, the family champion aided by business savvy and astute non-family executives ably modifies its meaning of 'continuity of the founder's business' from 'steel production' to 'continuity of the entrepreneurial spirit of the family', hence preserving the institutional identity. Insights from this study can help generational family firms which plan to exit from a failing course of action to regenerate so as to create trans-generational value

Business exit is the divestment of a whole business unit, or part of it, resulting from the decision to withdraw from an existing business (cf. Duhaime and Schwenk 1985). Shedding resource combinations that no longer add value-creating opportunities is a critical dynamic capability in Schumpeterian markets, and an important component of the entrepreneurial process (Eisenhardt and Martin 2000; Shane and Venkataraman 2000; Mason and Harrison 2006; DeTienne 2010). However, exit from a business is difficult for any firm as it runs contrary to our prevailing societal ideology of growth is success, while decline is failure (Whetten 1980). Even more challenging is de-escalating and jettisoning a business that has been successfully established and run by ones ancestors due to the psychological and practical

deterrents (Simonson and Staw 1992; DeTienne 2010). The generational shadow casts an enduring effect as ancestors' pathways are considered sacred grounds. Organizational routines that lead to success in previous generations are inherited and formulate the heuristics underlying strategic decisions. Each generation begins to view itself as a steward of the past legacy in the form of their family business, which must be nurtured for the support of future generations (Miller and Le Breton-Miller 2005). Continuity of the family firm may hence become an obstacle to change in firms anchored to a founder's business.

But, what does continuity mean? Does it refer to the family business itself as in its name, the industry in which it competes, the product/s it manufactures or services provided, the markets served? Continuity is a multi-faced construct, the meaning of which is open to sense making and interpretation in multi-generational family firms (Gioia and Chittipeddi 1991; Drozdow 1998; Gioia, Schultz, and Corley 2000). Can the implicit meaning of continuity vary in the minds of different family members? Can this construct take a different meaning over time? If so, how might leaders of family firms articulate and transfer the meaning of continuity to avoid confusion and conflict while encouraging strategic change? Are there conditions under which continuity of past-anchored values and identities can trigger the emergence of future-focused change factors? (Kaye 1996; Mason and Harrison 2006). Systematic attention has not yet been directed to these issues (Sharma 2004; DeTienne 2010) – a task undertaken in this article.

The purpose of our research is twofold. First, we highlight the critical importance of the overlooked topic of business exit in trans-generational entrepreneurship (Habbershon and Pistrui 2002; Salvato and Melin 2008; Chirico and Nordqvist 2010). Without an understanding of the factors influencing business exit, leaders of such firms may lack the heuristics and resources to engage in entrepreneurial opportunity recognition and exploitation (Shane and Venkataraman 2000; Sirmon and Hitt 2003). Second, we develop a framework of factors that influence exit from the founder's business and subsequent entry into a growing industry, while retaining family control. Our focus is on the role of continuity as both a potential obstacle to change – when past-anchored tradition prevails and as a trigger of strategic renewal – when tradition is leveraged to legitimize future-oriented values.

To frame and contextualize our investigation of business exit in family firms, the literatures on champions of change, organizational decline and divestment were found useful. However, despite some notable exceptions (e.g. Sirmon and Hitt 2003; Sharma and Manikutty 2005; Nordqvist and Melin 2008), these literatures have largely focused on non-family firms (e.g. Kimberly and Miles 1980; Whetten 1980; Duhaime and Grant 1984; Ginsberg and Abrahamson 1991; Simonson and Staw 1992). As we knew little about the antecedents, context and processes of business exit in family firms, we chose to pursue our investigation inductively by relying on a qualitative approach. This approach focuses on building an emergent theory from a perspective that gives voice to those living an experience (Corley and Gioia 2004) – in this case, business exit as experienced by the family and non-family members. To aid in understanding this process, we identified an organizational context – Falck Group – in which business exit has been successfully completed, making it possible for insiders to openly acknowledge and discuss experienced problems and solutions (Burgelman 1994).

Established in 1906, Falck Group became the largest privately held steel producer in Italy in the 1960s. In the first half of the 1990s, after nearly two decades of almost uninterrupted losses, it moved away from steel production and later entered the renewable energy business, which is currently the family's main entrepreneurial activity. We selected Falck for our investigation as a highly illustrative case. This entrepreneurial firm is a rare example in which the name of a family has been closely identified with an industry (steel) for over a century making it particularly challenging to divest from the founder's business. However, Falck has been successful in reinventing the firm's entrepreneurial story in renewable energy industry. These distinctive features of this remarkable family firm provide a unique opportunity to understand the forces at play when negotiating business exit and renewal in generational family firms. Insights from this firm are likely to illuminate the factors underlying observed behaviours and experiences of other multigenerational family-controlled firms. Multiple interviews with family and nonfamily members who were directly involved in the exit and renewal process were conducted. This data were triangulated with multiple secondary sources that played a major role in our research, allowing a systematic reconstruction of changes in the external environment and firm's choices over two decades of Falck's history when it transitioned from one industry to the other.

The study makes several contributions. It reveals the critical role of exiting a business to pursue novel entrepreneurial opportunities that enable longevity and success of family firms (Mason and Harrison 2006). As theorized by previous research, the contextual factors, such as clear and unavoidable industry decline, chronological distance from the founder and the presence of a limited number of active family members were helpful in this case (Sharma and Manikutty 2005; Hayward and Shimizu 2006). However, the most significant finding is the powerful role of highly regarded family anchors who champion the change process enabling

the successful exit and entrepreneurial regeneration of the family firm, while preserving institutional identity (Burgelman 1994; Gioia, Schultz, and Corley 2000). With the help of carefully chosen and able non-family executives, finding pathways of support among various families, industry, community and governmental stakeholders, the family champion of continuity (FCC) was able to nudge the family from its strong emotional anchoring in the founder's business, towards future focused entrepreneurial opportunities. It is interesting to note that along this process the definition of 'continuity of a family firm' undergoes significant modifications.