

# Entrepreneurship in Family Business: Emerging Storyline

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**Abstract.** Entrepreneurship is a major economic driver in the world. It leads to create jobs as well as wealth. Very little is known about how family businesses ensure that entrepreneurial activity flourishes during the next generations. This paper discusses and analyzes the overlap between family business and entrepreneurship and possibilities of how family businesses initiate entrepreneurial activities. Many interviews were conducted with family business leaders so to understand the nature this engagement. This paper also illustrates and summarizes other cases that lead to valuable lessons and patterns observed in family businesses and how it interacts with entrepreneurship.

**Keywords:** Family Business, Entrepreneurship, Wealth Management.

## 1. Introduction

The family business literature covers extensively issues surrounding succession and transmission of the family businesses, focusing for example on governance and wealth management for sustainability. One aspect that so far failed to attract much attention is the transmission of the entrepreneurial orientation in these family businesses. Anecdotal evidence abounds as to the inability of succeeding generations to maintain the entrepreneurial drive of the founder. In a 2006 study conducted for the European Venture Capital Association, Leleux and Schwass [1] showed for example that the single family office's willingness to invest in private equity and venture capital was very much inversely correlated to the generational distance to the entrepreneurial founder. In other words, the evidence supported a material drop in the percentage of the investable wealth of the family invested in the riskier asset class when the entrepreneurial founder died. The following generations seemed to have a very hard time perpetuating the entrepreneurial drive of their forefathers.

Even though a definition of a family business is highly contextual, however, it is possible to say that a family business refers to a company where the voting majority is in the hands of the controlling family; including the founder(s) who intend to pass the business on to their descendants [2]. Figure 1 represents the intersection of entrepreneurship, family business, and succession.

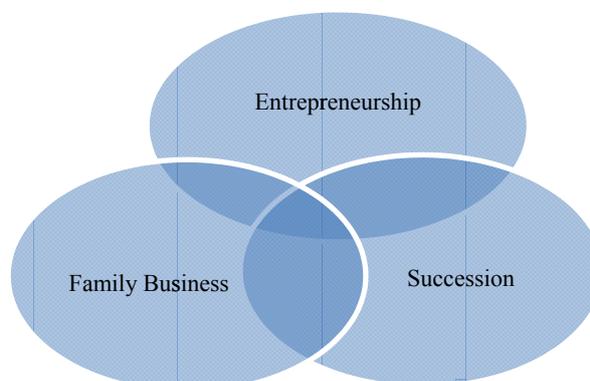


Fig.1: Entrepreneurship, family business and succession.

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The overlaps between the main areas are interesting to investigate and especially the overlap entrepreneurship, family business and succession. Kets de Vries [3] reports that about the 33% of family businesses survive the first generation and only 10% make it past the third generation. Similarly, Astrachan and Shanker [4] showcase that 33% of family business founders make it to the second generation, 12% reach the third generation, and only 3% will reach fourth generation.

The longevity of some family businesses is a phenomenon that has fascinated researchers for decades. Some have advanced that to survive over the long term the family firm must be managed with a clear vision of the future of the business and with the intention to pass it on to the next generation [5]. Others focused on the necessity for the family to nurture a shared sense of community between the members of the family and a common desire to remain in business [6]. Some have explored how great family businesses have balanced the needs of the family and those of the business, viewing the equilibrium between these contradictory forces as the key to survival [7].

This paper attempts to follow the footsteps of Zellweger and Sieger [8] that looked at the capacity of the long-lived family firm to maintain an entrepreneurial orientation, or those of Aronoff [9] that focused on the ability of the firm to keep a solid family organization and a good governance structure. The concept of organizational resilience has not been applied much to the study of family businesses, except maybe in Danes et al. [10].

## **2. Background**

It is of interest to note that, except for the paper of Danes et al. [10], the concept of organizational resilience has not been applied much to the study of family businesses, despite the fact that “sustainability” has garnered a great deal of attention. For example, little seems to be known as to the mechanisms that can insure a proper transmission of the entrepreneurial orientation and talent. Particularly of interest will be, in the words of Begin and Chabaud [11], the ‘renewal capacity’ of the firm, i.e. its ability to act and to devise innovative solutions to meet unusual situations [12]. The ‘renewal capacity’ is made of inventiveness and innovation, in line with the more generic concepts of the firm's entrepreneurial orientation [13] and the process of strategic regeneration [14], stressing that the organization seeks to develop new activities and / or to restructure existing activities. Based on family entrepreneurship, the renewal capacity suggests looking for opportunities, but also to leave room for initiative taking, innovation and experimentation with new ways of doing things [12].

Following Stopford and Baden-Fuller [14], the emphasis will be put on a few key factors: (1) pro-activity in research opportunities, (2) aspirations that go beyond the current capacity, (3) the mobilization of the management team and employees.

Another related approach is the recent work of Parada et al. [15] motivated by the apparent over-focus of empirical studies on the “bright side” of family involvement [16] showing how these resources lead to competitive advantage and thus become an “asset” over time for the family business. The authors show that family firms heavily rely on active involvement of the founder as CEO, showing entrepreneurial behavior becoming a key resource and competitive advantage. Entrepreneurial behavior was defined as the extent to which firms, through behavior of individuals and teams, increase new product development, facilitate new business creation, and reenergize existing operations [17], as well as their propensity to take risks, to be innovative and to be proactive [18], recognizing opportunities and acting quickly to seize them [19]. Over time these resources can become a “liability”, losing the entrepreneurial capacity on the firm level, especially in generational transitions as family and business complexity tend to increase.

This work would seek to investigate the transmission of the entrepreneurial orientation and talent to the next generations in the Arabian Gulf region, focusing in particular on learning mechanisms put in place to offer the next generation opportunities to learn and test their entrepreneurial bends.

## **3. Results, Analysis and Discussion**

### **3.1. Facts about Family Business in the Arabian Gulf**

Desk research reinforces the importance of family businesses in the region, and the depth of challenge faced around transition between generations:

- Family businesses are the main drivers of economic activity, growth and sustainability in many economies all over the world. Davis, Pitss, and Cornier [20] show that family businesses include most of the private sectors of the Gulf economies and represent more than 90 percent of the entire commercial activities in the Gulf Cooperation Council (GCC).
- According to regional experts, family businesses comprise most of the private sectors of the Gulf economies [20]. They also account for over 90 percent of all commercial activities in the GCC, compared to rates ranging from 65 to 80 percent in other regions of the world.
- Osama Al Rahma, Director at Al Fardan Group which is one of the family-owned business conglomerates in the United Arab Emirates (UAE), speaking at the Family Business Forum of the Internal Audit Festival [21] mentioned that only 15% of family businesses in the UAE would be able to survive the third generation due to the lack of governance structure.
- Sameer Huda, Head of Corporate at Hadeef & Partners in the UAE, speaking at the managing family business workshop in Dubai Chamber [22] argued that “The Middle East is no different from the rest of the world in that dynamic and capable business people establish businesses, some of which have grown to be quite substantial. There is a significant amount of evidence to indicate that a very low percentage of family businesses successfully transition to the second generation, and far fewer manage to survive to the third generation. Those that do survive and thrive tend to have addressed family governance, succession planning, corporate structuring and corporate governance in some meaningful manner
- Family businesses are considered a key economic driver in the GCC. According to the Dubai International Financial Center, family businesses control more than 90 percent of all commercial activities. The number of these firms was estimated at 5000 holding combined assets of more than \$500 billion, and employ about 70 percent of the workforce. In addition, Nasser Said, DIFC Chief Economist pointed out that families hold two-thirds of the boards of UAE listed companies where multiple family members on the board of same company [23].

### **3.2. Interview Results**

To date we have interviewed a handful of companies, in Dubai. We have some interesting initial findings. A number of observations that resulted from our interviews are as under:

- (1) A range of views on the importance of entrepreneurship over the next decade. Companies have very different strategic aspirations.
  - At the most conservative, companies are seeking to preserve cash and maintain their current positions.
  - Others are looking to float the businesses on the public markets when conditions are favorable.
  - These attitudes drive both attitude and approach to entrepreneurship, and to the importance of generational transition of entrepreneurship.
- (2) In some cases, a lack of clarity on who is responsible for entrepreneurship. We encountered the following situations during our interviews:
  - In one organization, the real driver of entrepreneurship is the founder. This is then passed to a corporate development unit to review and develop strategic initiatives.
  - We have seen a corporate venturing unit, to incubate and develop businesses linked to the core family business. Run as an in-house private equity unit. Typically early stage strategic diversifications, likely to have a ‘cap’ on potential scale – of a relatively small percentage of the overall business.
  - In another, entrepreneurship is implicitly (not explicitly) passed to the annual budget / planning process. Family members, who run operating units, put forward their plans to grow the business. Limited ambition entrepreneurship – extensions from current business not step-change expansion / diversification.

- In another, the emphasis seems to be a mix of entrepreneurship through the family office – acquiring ‘challenged’ companies and some through the core business where there is a direct link to core business activity.
- In another, entrepreneurship seems to be translated into increasingly challenging targets for the core business rather than diversification geographically or by product. This is passed to existing management, irrespective of generation.

We have so far heard limited focus on generational change and entrepreneurship. We don’t have a clear picture emerging of how the linkage between ‘family’ and ‘employed’ management and the business will play out as generations change. Perhaps this will, in part, be determined by how business ownership changes as companies IPO, when practical.

We are forming an impression of ‘command and control’ management structures – with tightly held reins in the hands of the founding generation. With an impression that the founding generation remains in the business beyond typical Western retirement age. And thus maintaining very strong influence over the business. Potentially implying that true generational transition takes place when the ‘heirs’ are perhaps older than business leaders in the West?

We would like to investigate the extent to which succeeding generations take on ‘staff’ roles such as corporate development, sales/business development, geographic expansion roles (as MDs of businesses expanding into new geographies), or diversification / expansion roles (again as MDs). To date, we have not found substantial examples of succeeding generations taking on these roles, in an actively/ambitiously entrepreneurial environment.

We have been told that the ‘in principle’ approach for a specific firm is for family members to be given an opportunity to test the waters and their leadership skills through leading one of the family business projects. Subsequently, if a reasonable success comes out of this experience, then this person would be given the opportunity not only to be part of the family business executive council but also shape up the vision of the entire family business. We do not have specific examples to refer to – to better understand how this is shaped and what results have been.

#### **4. Conclusion**

Businesses in general should have a corporate governance structure to foster viability and sustainability. The role of governance structure and its impact on family businesses control the type of entrepreneurship which could be planned and conducted. This opens up an opportunity to investigate the correlation between the type of family governance system and the entrepreneurship drive in the family business.

#### **5. Acknowledgment**

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