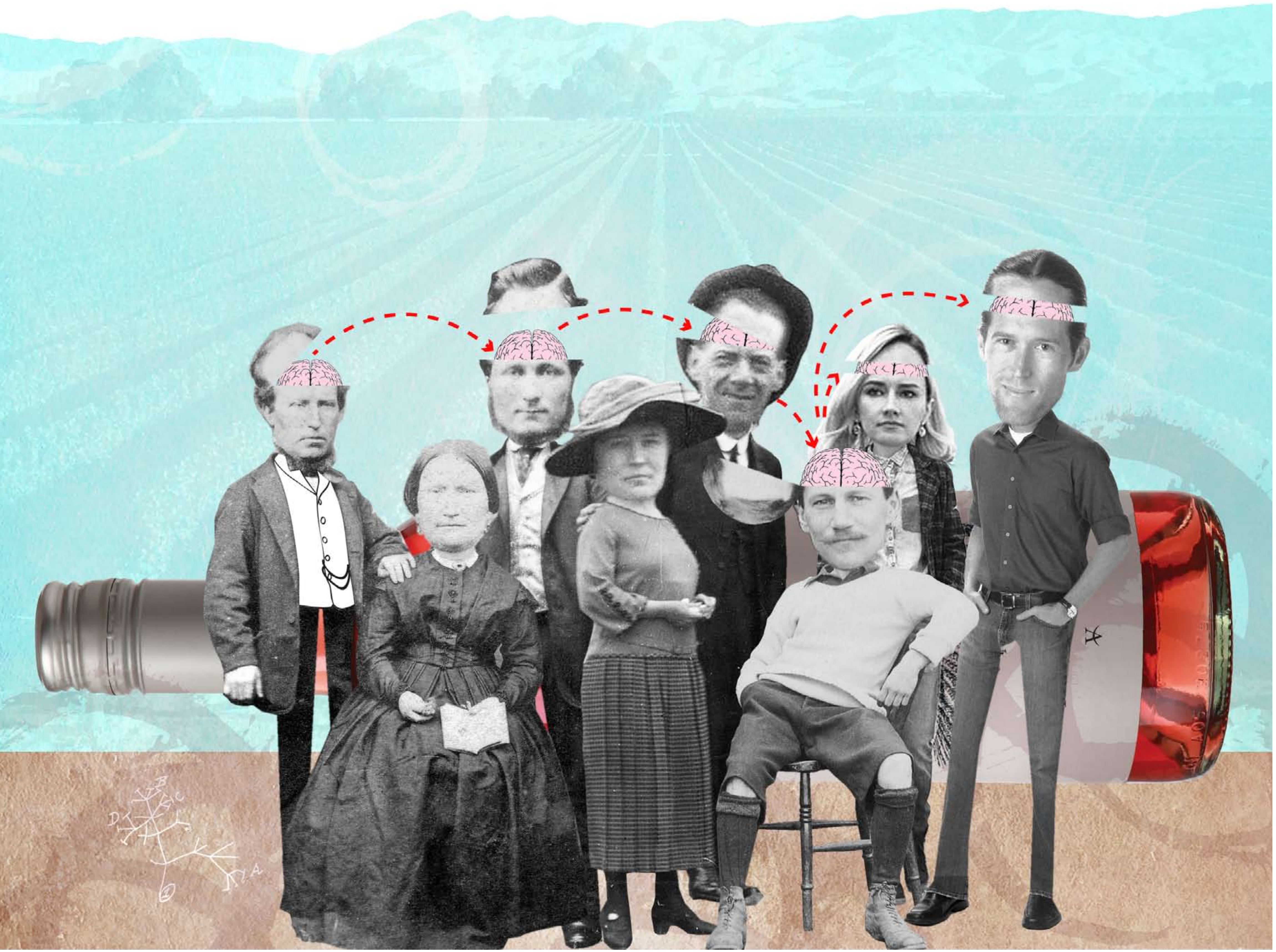


ANDREW CALDWELL (ALL ILLUSTRATIONS)

INTERGENERATIONAL

FAMILY BUSINESS

Hard Graft

Paul Woodfield

RESEARCH surrounding family businesses is saturated with talk of trouble. Academics and practitioners often miss what works well and how a business can build on its strengths and create a vision for the future. Usually the focus is on the succession process rather than the question of whether a family business can be sustained across generations and by what means. There needs to be a change of perspective that addresses how families can refine their businesses without perpetual navel gazing.

▶ To build sustainable businesses, families must understand how entrepreneurial orientation and heritage interact

LENGTH : 10 min (2570 words)

GROWING UP, I found the stories of my heritage intriguing. My great-grandfather had built a wine business from money he made as an importer of fancy goods.

Following the entrepreneurial mantra, he and his wife endured times of risk and uncertainty while bringing up a family that would be integral to the success of their business. Corbans wines grew to be the largest winery in New Zealand, with each generation pushing the boundaries with innovative thinking and an entrepreneurial spirit.

As with many of the wine industry's older families, at Corbans knowledge was passed on with a respect for the next generation's education and experience. At the time, the younger generations of the pioneering families were among the first to get formal qualifications in viticulture and oenology, and consequently huge advances were made in the commercialisation of wine. The Corban family remained competitive in the fruitful climate but the time came when external finance outweighed that of the family, and the decision was made to make what they could of their 75-year investment by handing the reigns over to a transnational. The brand remains as a legacy but the essence that was the family is now lost. It is a common story.

What are family businesses?

MOST DEFINITIONS of family businesses refer to the ownership and management—and sometimes the governance—structure. What is often neglected is the business' continuity—a focus on sustaining a family business across generations.

Intergenerational family businesses refer to businesses that have more than one generation in the business. Writing in the journal *Entrepreneurship Theory and Practice*, researchers Jess Chua, James Chrisman and Pramodita Sharma defined a family business as:

- One that is governed and/or managed and controlled by a dominant coalition of the same family or small number of families
- One where the family or families intend shaping and pursuing the vision of the business in a manner that is potentially sustainable across generations.

A recent article by Pramodita Sharma, James Chrisman and Kelin Gersick—all preeminent scholars and practitioners in the family business field—reviewed common topics featured in the journal *Family Business Review*. Since the 1980s, the bellwether topic has been succession, but numerous others have been explored, including challenges and conflicts within a family business, the dynamics of relationships, business performance, governance, professionalisation, and internationalisation. More recently there has been strong interest in entrepreneurship and, to a lesser extent, innovation. Bringing family business, succession, and entrepreneurship together, my recent research has focused on how an entrepreneurial family business can be sustained across generations. This article will concentrate on some of the findings.

Knowing your orientation

THERE IS awareness that entrepreneurship is an essential element of any business, although many businesses—including family businesses—don't see themselves as entrepreneurial. This becomes obvious when speaking with family-business owners, who often relate their endeavours to "business as usual" or to "projects" that they are working on. This difference in lexicon demonstrates the gap between academic "observers" and practitioner "doers".

Academics describe entrepreneurs as those who gain new entry to a market, or perhaps create a new market, while practitioners consider themselves to be engaged in a broader continuum of projects that may lead to something. Interestingly, what practitioners describe aligns well with the foundational definition of entrepreneurship, which is "undertaking a project". Without distorting this definition too much, I would go further, and describe an entrepreneur as someone who undertakes innovative projects—ones that involve taking a product or service to market, and/or establishing new markets. Undertaking innovative projects inherently means taking on a degree of risk and uncertainty.

More recently, research has shifted from a study of entrepreneurial behaviour and the role of an entrepreneur to how a business is oriented entrepreneurially. Instead of focusing on what entrepreneurs do or think through concepts such as risk and uncertainty, scholars now recognise what it is to be entrepreneurial, and how individuals and organisations can orientate toward being entrepreneurial. This line of thought originated in the following way. In 1983, Canadian academic Danny Miller presented firms as having one of three configurations—the simple firm, the organic firm, and the planning firm. His suggestion was that entrepreneurship in simple firms was founded on the characteristics of the leader. An example of this is a business where a leader tends to strategise intuitively rather than engaging in analytical thinking. Planning firms were more deliberate with their integrated marketing strategies, meaning they would engage in more elaborate planning and control systems. Organic firms, on the other hand, sit between these configurations and "strive to be adaptive to their environments, emphasising expertise-based power and open communications".

Almost 30 years on, and after a proliferation of research based on his seminal 1983 article, Miller acknowledged that the purpose of it was to show that the drivers of entrepreneurship manifested themselves differently in different organisational configurations. Little did he realise that from this foundation would emerge a movement toward understanding entrepreneurship within organisations (corporate entrepreneurship) and, more recently, how organisations adopt various entrepreneurial orientations. This evolution from theorising the configuration of firms to entrepreneurial orientation helps academics and practitioners unbundle entrepreneurship in a more strategic way.

Undertaking innovative projects inherently means taking on a degree of risk and uncertainty.

Entrepreneurial orientation

DANNY MILLER, Chair in Family Enterprise and Strategy at the University of Alberta, is also well

known for his articulation of entrepreneurship in family businesses and his formative work on intergenerational succession. Miller encouraged scholars and practitioners to be mindful of family businesses' entrepreneurial orientation. In their article 'The role of entrepreneurial orientation in stimulating effective corporate entrepreneurship', Researchers Gregory Dess of the University of Texas at Dallas and Tom Lumpkin of Syracuse University include among concepts that underscore entrepreneurial orientation: "the propensity to act autonomously, a willingness to innovate and take risks, and a tendency to be aggressive toward competitors and proactive relative to marketplace opportunities." Although all are of importance to the robust entrepreneurial orientation of a family business, the willingness to innovate is key. In my research, innovativeness featured strongly where knowledge was shared within the family business.

One of the key resources for innovation is knowledge. American management consultant Peter Drucker once stated that knowledge was not just *a* resource but *the* resource that underpins society. For a family business to be innovative the sources of knowledge need to be considered as well as the conditions under which knowledge is tested and refined in individuals and collectively.

Having outlined the background of family businesses in relation to entrepreneurship, let's now look at a local study completed in 2012 that captured stories from family businesses themselves.

Wine trail of interviews

RECENTLY, I spent time travelling around New Zealand visiting family wine businesses —not an unpleasant task! The aim in each case was to speak to the entire family involved in the business as well as to a number of key employees. The main criteria were that they were medium-sized, intergenerational New Zealand businesses. To find out what had worked well an appreciative inquiry approach was important. Essentially this meant that all questions were positive by nature—for example, asking about strengths or highpoints in the business' growth. In total, three wineries were visited and 27 interviews conducted, averaging an hour in length. Typically, interviews with family members were longer but the more objective views from employees were invaluable.

Firm Configurations	→	Corporate Entrepreneurship or Intrapraneuship	→	Entrepreneurial Orientation
Simple Planning Organic		Corporate Venturing Strategic Renewal		Autonomy Innovativeness Proactiveness Competitive Aggressiveness Risk-Taking

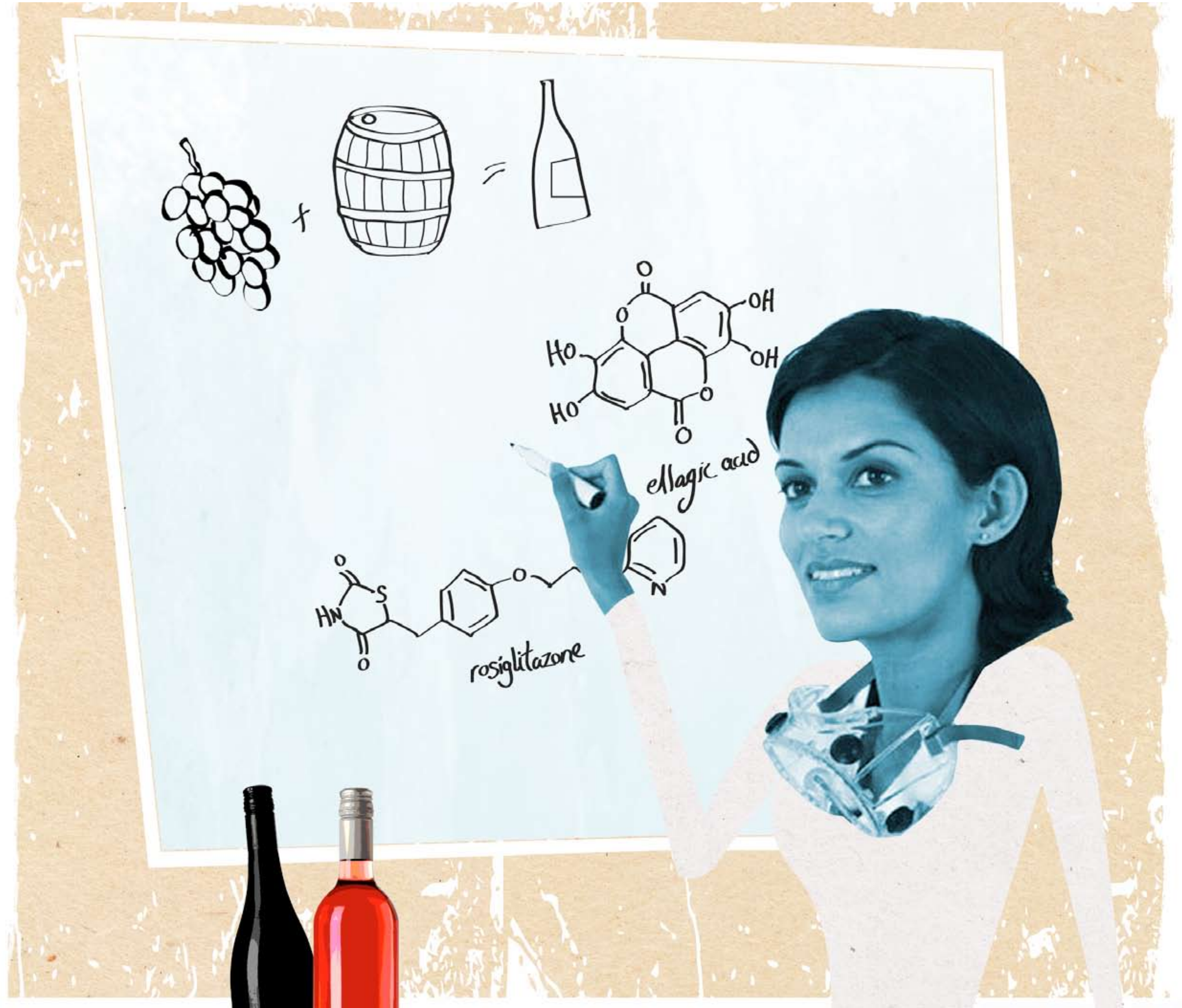
Figure 1: The general evolution of entrepreneurial orientation

All interviews were transcribed verbatim, then categorised, synthesised, and analysed for patterns and emerging themes.

Grafting the generations

ALL RESPONDENTS spoke candidly about their business, with some telling stories of struggles, risks taken, and of ensuing times of uncertainty. A number of themes emerged, including three relating to the sharing of knowledge in family businesses:

• **Aptitude:** Acquired through the accumulation of knowledge. Sources of this knowledge included any competence gained through formal education —which need not be aligned with the family business. Practical experiences



featured prominently and included travel, working in other industries, and even working for competitors.

• **Guidance and grooming**: Beyond aptitude, guidance and grooming includes knowledge gained from family members and from outsiders such as advisors or board members. The son in one business, for example, was mentored by a board member with extensive industry experience who had previously mentored his father.

• **Continuity**: The continuity theme relates to the conditions where knowledge is tested. It includes succession planning, the transition between generations, and the assent of the next generation. Succession is often referred to as a process and not merely an event. To reflect the process, this theme was formulated as planning, transition, and ascension.

I find "two sides of a coin" a useful metaphor to illustrate knowledge sharing in a family enterprise. Obviously, a coin has two sides—obverse and reverse respectively. Relating the coin metaphor to the generations in a family, obverse knowledge sharing occurs from the senior generation to the next generation, and reverse knowledge sharing occurs from the next generation to the senior generation. The knowledge overlap can be expressed as diverse knowledge sharing where there is potential for conflict. In a family business, it is often assumed that the senior generation will pass on knowledge to the next generation. This is often true, given the accumulated education and experience that the senior generation(s) possess. However the reverse can also be true. Given the advancement of technology and science, the next generation of a family business can possess knowledge that was not available to the senior generation. The same also holds for experiences gained through travel and individual careers. One memorable example was a next-generation family member who had a financial interest in bars and was involved in a number of sports. These experiences were translated into ways where the family wines could be showcased and promoted beyond traditional channels.

Thomas Kalling, director of the Institute of Economic Research at Lund University, and Alexander Styhre of the University of Gothenburg, viewed knowledge sharing as the single most important knowledge management practice, given the opportunities and challenges associated with "invisible assets". These are assets such as tacit knowledge that are unseen, hard to replicate and idiosyncratic to individuals or to the collective family. The senior generation tends to exercise accrued wisdom through intuition, foresight, and pragmatism, and can at times frustrate the next generation who often want to exercise knowledge from fresh experiences and up-to-date education. Family members need to be aware of this potential clash in knowledge and respect each other's views. Importantly, the next generation needs to be treated as the emerging experts as they consider stepping up in the business.

Knowledge sharing to innovation

ONE OF the more enduring phenomena within family businesses is their long-term orientation. CEOs of non-family businesses tend to address the short-term orientation of the business, or as I like to put it "their-term orientation". As an employee, a CEO can bring about change and align the culture of the business with his or her values through leadership. This has advantages—especially where change is needed—but it can be short lived. Family businesses are likely to have the same CEO for a long term and all going well the successor will also be a family member. Such long-term focus and stability can lead to an accumulation of knowledge that is trustworthy, built on shared values, and consistent. The question is whether this is enough to invoke an innovative mindset that can re-orientate a business or feed the growth necessary for a sustained enterprise. It is my belief that the next generation can be key to advancing innovation through their refreshed education and experiences. The task for the senior generation is to provide an environment that entices the next generation to be open with their knowledge and engage in innovativeness within the family business rather than somewhere else.

Examples uncovered by my research include the introduction of organic growing by a daughter of one family wine business, and the systems approach and innovative partnerships of another.

With her siblings already in the family business, one daughter struggled to see how she would fit into the business. She was a viticulturist, but so was her father, and he appeared likely to remain in the business for some time. She proposed that she use the experience gained at other wineries to start an organic growing operation. Initially dubious, the father set aside several hectares for her to experiment with. What eventuated was a

The key inference in each case is that the senior generation was open to advancing the family business through the new knowledge the next generation was able to bring to the table.

successful and award-winning sub-brand that catered to a market not previously pursued by the family business. The father then gave her more leeway to experiment with different varieties on yet more land.

The second example is of a son who defied the traditional practices of the senior generation and, drawing on an extensive career in commerce, introduced systems that generated a better understanding of the cost of each bottle produced. It allowed the family to reduce the uncertainty around costs and introduce more innovative pricing structures. Another aspect introduced by the next generation was the forming of innovative partnerships. These were not just for production, but for the acquisition of other wineries and land through non-family partnerships that the family later acquired through buyouts. Although not revolutionary, this example provided leverage to purchase within the confines of the debt constraints imposed by the family as part of their long-term orientation strategy. By not over exposing themselves financially they were one of the few wineries that expanded when others were downsizing.

The key inference in each case is that the senior generation was open to advancing the family business through the new knowledge the next generation was able to bring to the table. Talking with both the senior and next generations of a family business revealed that the succession process was where rich knowledge could be found. However it is also where it can be lost. Through guidance and grooming, knowledge can be disseminated, but guidance can equally come from the next generation as a result of their fresh competencies.

Parting Remarks

THERE WILL be challenges and conflict in any family business. What advisors can do is refocus family businesses on what has worked in the past and what is currently working, and build on these strengths. This is not to say that some reflection on mistakes or challenges is not also important. However understanding what works well can refine the vision for the future. A family business is not limited to one generation but is an intergenerational environment. Importantly, a clear focus on the family's entrepreneurial orientation for their business will inevitably strengthen the focus on what works well.

Capturing the knowledge from all willing family members can change the attitude of the family business. Through careful guidance and grooming by the senior generation, and respectful acknowledgement of the next generation's competencies, family businesses have a better chance at being innovative. They are also more likely to enjoy a harmonious transition between generations when the time comes. One of the advantages the senior generation has is the ability to draw on experience to mitigate over-zealousness on the part of the next generation. The key is not to smother the next generation with outdated traditions, but to revitalise its heritage through the grafting of new concepts. ■

Paul Woodfield is a post-doctoral Research Fellow at the University of Auckland Business School's Centre for Enrepreneurial Learning. His main research interests are in the fields of family business, entrepreneurship, and innovation in traditional industries.

p.woodfield@auckland.ac.nz

Acknowledgements

This research was made possible through the support of the Employers and Manufacturers Association and the Tertiary Education Commission.

KEY TAKE-OUTS

- **The willingness to innovate is key to the entrepreneurial orientation of a family business.**
- **The next generation needs to be treated as the emerging experts as they consider stepping up in the business.**
- **The task for the senior generation is to provide an environment that entices the next generation to be open with its knowledge and to engage in innovation within the family business rather than elsewhere.**