

Entrepreneurship orientation in family business: Decision process structure & succession planning

Harshavardhan Reddy Nallabathula^a ✉ | Ashok Doraiswamy^a

^aVIT Business School, Vellore, India.

Abstract Family firms play a significant role in economies worldwide, contributing substantially to wealth generation and employment opportunities. Particularly prevalent in rural and remote areas where larger enterprises may struggle to operate effectively, these firms are crucial for both economic growth and social development. Entrepreneurship, characterized by innovation, courage, and strategic planning, is fundamental for driving economic development and instigating substantial changes within market economies. Previous research has identified various factors influencing entrepreneurial development in response to evolving business environments. This paper aims to investigate the capacity of enduring family firms to maintain an entrepreneurial orientation while also prioritizing strong family ties and effective governance structures. Building upon existing theoretical frameworks in the realms of family business and entrepreneurship, this study examines the prevalence of entrepreneurship within family businesses. Additionally, it explores the significance of entrepreneurial orientation in succession planning and the decision-making processes within family firms. The conceptualization presented here integrates insights from existing literature and proposes a research agenda for further exploration in this field. By reviewing relevant literature and outlining a research methodology, this paper seeks to shed light on the intersection of family business dynamics and entrepreneurial behavior. Understanding the interplay between entrepreneurial orientation, family involvement, and governance structures is crucial for informing strategic decision-making processes within family firms. In summary, this paper contributes to the broader understanding of the role of entrepreneurship within family businesses and its implications for succession planning and decision-making. By elucidating the complex dynamics at play in these firms, it offers insights that can inform both academic research and practical management strategies for sustaining and enhancing the entrepreneurial spirit within family-owned enterprises.

Keywords: family business, succession, decision making, entrepreneurial orientation, business performance

1. Introduction

Alderson (2011) defines a family business as one "administered and managed to form and follow the business vision held by a dominant coalition controlled by individuals from the same family or a few families, which may be sustainable across generations." Thus, family firms are broadly understood as companies where a single family holds a significant majority of voting shares, is represented in the management team, and the primary representative of the family perceives the business as a family firm (Chua, Chrisman, & Sharma, 1999; Habbershon, Williams, & MacMillan, 2003). The components of involvement approach have been the most influential strategy in conducting research in the family business field, encompassing aspects related to strategic planning and entrepreneurship. It focuses on a combination of factors such as ownership type and level, management style, and trans-generational succession issues as defining characteristics of a family business (Chua et al., 1999). Conversely, the essence approach contends that while these factors are crucial, they alone are insufficient for identifying a business as a family enterprise. Therefore, it should also consider matters related to intention, vision, behavioral aspects, and "familiness," inherent to its nature to qualify as such (Davis & Tagiuri, 1989; Litz, 1995; Chua et al., 1999).

Familiness, a concept first proposed by Habbershon and Williams (1999), refers to the unique bundle of resources and capabilities a particular organization possesses due to the family system's interaction among the family, its individual members, and the business. It is evident from these concepts that the components of involvement approach have created more opportunities for research, as the factors associated with the concept inherent in the approach are more amenable to becoming operational. However, for the essence approach to be used as a basis for research, some theoretical underpinnings must be elucidated before such endeavors.

The family business literature extensively covers issues surrounding succession and the transmission of family businesses, focusing, for example, on governance and wealth management for sustainability. One aspect that has so far failed to attract much attention is the transmission of entrepreneurial orientation in these family businesses. Anecdotal evidence abounds regarding the failure of succeeding generations to maintain the entrepreneurial drive of the founder.

Though a definition of a family business is highly analytical, it is possible to state that a family business refers to a company where the controlling family holds the voting majority, including the founder(s) who intend to pass the business on to their descendants. Figure 1 represents the intersection of entrepreneurship, family business, and succession.

The overlaps between these primary areas are intriguing to research, particularly concerning entrepreneurship, family business, and succession. Kets de Vries (1993) reports that about one-third of family businesses survive the first generation, and only 10% make it past the third generation. Furthermore, Astrachan and Shanker (2003) illustrate that one-third of family business founders make it to the second generation, 12% reach the third generation, and only 3% will reach the fourth generation. The longevity of some family businesses is a phenomenon that has intrigued researchers for decades. Some have advanced that to survive in the long term, the family firm must be managed with a clear vision for the future of the business and with the intention to pass it on to future generations (K. E. Gersick, J. A. Davis, H. M. McCollom, and I. Lansberg). Others focused on the need for the family to maintain a shared sense of community among its members and a common desire to remain in business (E. Santarelli and F. Lotti, 2005). Some have explored how great family businesses have balanced the needs of the family and those of the business, seeing the equilibrium between these conflicting forces as the key to survival (J. L. Ward).

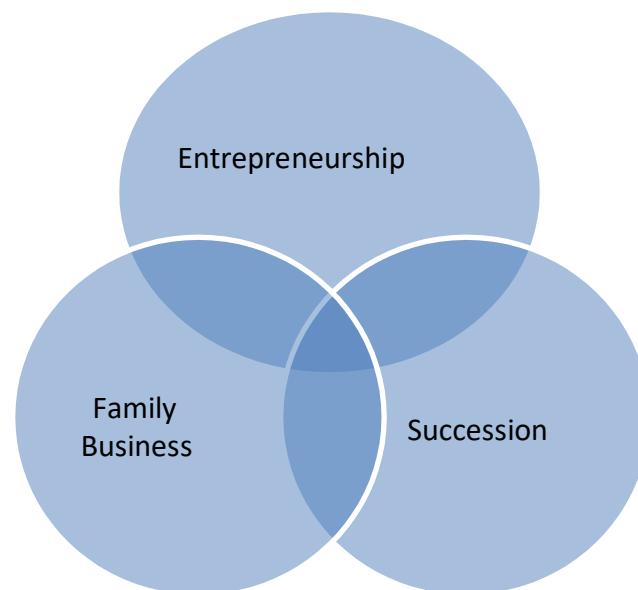


Figure 1 Entrepreneurship, family business and succession

Source: Z. Ezziane et al (2013).

Cristina Cruz and Mattias Nordqvist (2010) adopt a generational perspective to explore entrepreneurial orientation (EO) in family firms. They developed a model to determine how the influence of external factors and internal elements varies in first-, second-, third-, and beyond-generation family firms. They argue that while the founder is crucial in the first generation, EO is increasingly subject to interpretations of the competitive environment in the second generation, and that in the third generation and beyond, access to non-family resources drives EO to a greater extent. Their findings indicate that the perception of the competitive environment and EO interact differently in family firms, depending on the generation in control, and is generally stronger in second-generation family firms. Furthermore, they find that non-family executives on the top management team have a positive effect on EO only in third-generation and beyond family firms. The significance of non-family investors on EO is particularly strong in third-generation-and-beyond firms.

The relationship between EO and the resources and capabilities of family-owned companies towards marketing performance has been examined in past research as evidence of a connection between EO and firm performance. However, there is limited research investigating both psychological and physical aspects of family businesses like EO and family-owned company resources and capabilities on firm performance. Wittaya Charupongsopon and Wilert Puriwat (2017) found that the relationship between EO and family-owned company resources and capabilities influences entrepreneurial performance positively. This study provides insights for researchers, practitioners, and managers on the importance of both entrepreneurial orientations and firms' resources and capabilities for the survival and growth of family-owned businesses.

Entrepreneurial orientation is one of the most critical aspects for a company's performance, growth, and survival. A current debate in the family business field revolves around the extent to which the specific characteristics of family firms hinder or promote entrepreneurial behavior (Habbershon and Pistrui, 2002). Some researchers argue that family businesses provide an environment that fosters entrepreneurial activities (Litz, 1995; Aldrich and Cliff, 2003; Rogoff and Heck, 2003),

while others, by contrast, claim that family businesses are risk-averse, reluctant to innovate, and slow to change, thereby inhibiting entrepreneurial activities (Kets de Vries, 1993; Gomez-Mejia et al., 2007; Naldi et al., 2007).

Entrepreneurial orientation in family businesses within the Indian MSMEs setup has been under-researched. Moreover, the MSME sector balances the larger organizations and significantly contributes to the economic and social well-being of the country. The involvement of this sector was equally significant in the past, as it accounts for around 40 percent of the total national export, 45 percent of the total industrial output, with 8 percent of the gross domestic product (GDP). This particular sector of the economy holds the potential to enhance the industrial development of the nation. Additionally, this MSME sector contributes to the progress of the nation by influencing "operational flexibility, contribution toward defense production, technology-oriented industries, location-wise mobility, capacities to develop appropriate indigenous technology, import-substitution, low-investment requirements, low-intensive imports, domestic production, significant export earnings, and competitiveness in national and international markets, thereby creating new entrepreneurs by providing training and knowledge." In this context, reviewing entrepreneurial orientation in family businesses through decision-making structure and succession planning is even more significant.

As an endeavor to further explore this debate, this paper reviews the evolution of entrepreneurial orientation in the context of family-owned organizations. Thus, this paper contributes to the referenced discussion by focusing more on the specific dynamics between family firms and entrepreneurial orientation. Furthermore, it investigates the relationship between family involvement, perhaps one of the most critical features of family firms, and the three dimensions of the entrepreneurial orientation construct: creativity, risk-taking, and proactiveness.

This paper aims to limit the seemingly endless family firm (capacity of long-lived family firm) to maintain an entrepreneurial orientation, or those focused on the ability of the firm to maintain a strong family involvement and a sound management structure.

2. Literature Review

2.1. Entrepreneurship Orientation and Family Business

Entrepreneurs must possess the ability to identify various entrepreneurial opportunities to initiate a business. Once necessary resources like financial, human, and physical/non-physical facilities are obtained, entrepreneurs can start businesses through which they sell products and services (Cho & Lee, 2018). In India, both popular media and academic literature have recently paid significant attention to entrepreneurial orientation, as it is considered a key driving force for the nation's economic well-being, spurred by government initiatives (Ghani et al., 2014; Beynon et al., 2016). While entrepreneurial orientation was initially developed and used for studies related to the organizational level, researchers now prefer this five-factor entrepreneurial orientation for studying individual-level entrepreneurship studies across the world (Cho & Lee, 2018). Entrepreneurship education may also decrease negative perceptions of entrepreneurship and business failure. Entrepreneurship education can legitimize entrepreneurship as a feasible career choice and promote entrepreneurial ethos among students (Donckels, 1991; Johannisson, 1991; Kirkley, 2017).

Furthermore, existing literature suggests that "entrepreneurial orientation (EO) leads to enhanced growth among firms that practice it." Most studies have identified that the "EO variable is significantly related to firm growth" (Neneh & Van Zyl, 2017; Gupta & Batra, 2016; Kim et al., 2015).

Some research indicates that the concept of organizational adaptability has not been extensively applied to the study of family businesses, despite the considerable attention given to "sustainability." There is a lack of knowledge about the mechanisms that can ensure the proper transmission of entrepreneurial orientation and capability. Of particular interest is the "renewal capacity" of the firm, i.e., its ability to act and devise innovative solutions to meet unusual circumstances (Lengnick-Hall & Beck, 2009). The "renewal capacity" comprises creativity and innovation, consistent with the broader concepts of the organization's entrepreneurial orientation (Stevenson & Jarillo, 1990) and the process of strategic renewal (Stopford & Baden-Fuller, 1994), emphasizing that the organization seeks to develop new activities and/or restructure existing ones. In the context of family entrepreneurship, renewal capacity suggests not only searching for opportunities but also allowing room for risk-taking, innovation, and experimentation with new ways of doing things (Lengnick-Hall & Beck, 2009).

Following Stopford and Baden-Fuller (2010), emphasis will be placed on a few key elements: (1) pro-action in researching opportunities, (2) aspirations that go beyond current capabilities, and (3) mobilizing the management team and employees. Another related approach is the recent work of Parada et al. (2010), which, inspired by the apparent over-focus of observational studies on the "bright side" of family involvement, shows how these resources lead to competitive advantage and become an "asset" over time for the family business. The authors demonstrate that family firms heavily rely on active involvement of the founder as CEO, indicating entrepreneurial behavior becoming a key resource and competitive advantage. Entrepreneurial behavior was defined as the extent to which firms, through the behavior of individuals and teams, increase new product development, facilitate new business creation, and rejuvenate existing operations (Pinchot, 1985), as well as their propensity to take risks, be innovative, and be proactive (Green et al., 2008), recognizing opportunities

and acting quickly to seize them (Alvarez & Barney, 2007). Over time, these resources can become a "liability," losing the entrepreneurial capacity at the firm level, especially in generational transitions as family and business complexity tend to increase. This work aims to investigate the transmission of entrepreneurial orientation and capability to the next generations in the Arabian Gulf region, focusing particularly on learning mechanisms in place to provide the next generation opportunities to learn and test their entrepreneurial inclinations.

Most studies examining the linkage between family firms and Entrepreneurship have adopted the concept developed by Miller (1983). According to Miller (1983), entrepreneurship is a multi-dimensional concept that encompasses the organization's actions related to product-market and technological innovation, risk-taking, and proactiveness (Miller, 1983). Lumpkin and Dess (1996) defined these concepts as follows: Creativity indicates the firm's tendency to support new ideas and facilitate innovative processes aimed at developing new products and services. Risk-taking is the firm's inclination to support projects with uncertain returns. Proactiveness means taking steps and pursuing new business opportunities in emerging markets.

Indeed, with similar definitions, the term entrepreneurship in the context of family firms has been referred to as corporate entrepreneurship (Kellermanns & Eddleston, 2006), entrepreneurial behavior (Kellermanns et al., 2008), entrepreneurial orientation (Naldi et al., 2007), or entrepreneurial spirit. More recently, research by some scholars, based on a concept that implies social capital and familiness implications, the term collaborative entrepreneurship or collective entrepreneurship has been used to refer to entrepreneurship (Ribeiro-Soriano & Urbano, 2009; Toledano et al., 2010). Similarly, scholars have begun to pay closer attention to entrepreneurial activities that take place within an established organization, using the term intrapreneurship in these cases. Thus, collaborative entrepreneurship "encompasses the relationships established among individuals in order to create new businesses within established firms, introduce significant innovations, and enhance a company's competitive position" (Toledano et al., 2010). This concept emphasizes the role of human relationships or networks built around the family business and contains elements more closely related to the essence approach of family firms. In addition to the factors related to growth, risk-taking, and proactiveness mentioned above, collaborative entrepreneurship considers the frequency and type of interactions.

Family business is a relatively new field, but business research has garnered increased attention in recent years. However, comparing various research findings is challenging because there is no single, coherent definition of a family business. This may be due to the slight consensus of the young research field but also due to various factors that influence the varying definitions. Additionally, the homogeneity of these firms can be questioned because each family business has its own history, culture, and idiosyncrasy that differ in various ways. Nonetheless, regardless of the organizational form, sector, or age, a firm needs to meet the following conditions to be considered a family business (Finnish Family Firms Association, 2006): firstly, a family (i.e., an extended family formed, e.g., by siblings, grandparents, and cousins, or at most a few families) controls ownership. Secondly, individuals belonging to the family or extended family are on the board or participate actively in the activities of the firm. Finally, the owner-manager considers the firm as a family business, which was the main criterion used in this study. Typical of all family businesses is the integration of a firm, ownership, and family. One central element is also the continuity of the business, i.e., there is a conscious intention to transfer the firm (leadership and control) to the next owner generation (Kelly et al., 2000). For example, a family business is an ownership, partnership, corporation, or any form of business association where the voting control is in the hands of a given family. Family involvement can strengthen the business since family members are generally highly loyal, creative, and reliable, and are committed to the family firm. Such commitment can reduce infighting for control in the firm, give rise to excellent communication, cooperation, and trust, and foster understanding. The spirit of entrepreneurship and effective operations also belong to the values of the family business (Tagiuri & Davis, 1996). Decision-making is more centralized and efficient because of concurrent roles in the family firm (Tagiuri & Davis, 1996). However, concurrent roles can also have negative consequences, such as family, ownership, and business issues possibly being conflated, firms experiencing a lack of marketplace objectivity, and poor profit discipline. The family business may also encounter challenges in internationalization and growth, unique organizational structures, succession processes, and emotional charge (conflicts stemming from ownership and exercise of power) (Tagiuri & Davis, 1996). Nonetheless, recent studies have found some evidence that small firms, typically family-owned, have performed better on average than large ones measured by productivity and growth. In addition to growth, because of the age structure of the entrepreneurs, succession has recently been a particularly important issue in the field of family business.

In most countries, family firms play a key role in overall economic development. Family firms range from small enterprises serving a local area to large companies and conglomerates operating in multiple industries and countries (IFC, 2008). These firms represent the majority of businesses worldwide and are an important source of wealth generation and workforce engagement (Cadbury, 2000; Fattoum & Fayolle, 2009; Hacker & Dowling, 2012; Hoy & Sharma, 2010; Kellermanns et al., 2008; Kuratko & Hodgetts, 2004; Mazzarol, 2006; Ramadani et al., 2013). Thus, family firms are key social and economic players in the global context (Table 1).

In the United States, the world's largest economy, approximately 60% of all public and private organizations and companies are family businesses (Astrachan & Shanker, 2003). Families are the controlling owners of one-third of the S&P 500 companies, accounting for 18% of outstanding equity and exerting a significant financial influence (Anderson & Reeb,

2003a). Using a broad family business definition (i.e., family controls strategic direction and directly participates in business), a total of 24.2 million family businesses can be found in the United States alone, employing 62% of the nation's workforce, approximately 82 million people, and contributing to 64% of the GDP, roughly \$5.9 trillion (Astrachan & Shanker, 2003).

A similar picture can be found in the world's second-largest economy, China, where 85% of all private enterprises are family-owned, employing two-thirds of the working population, around 515 million people. In 2010, 37% of the 762 listed private companies in China's A-share stock market were family-owned firms (Ministry of Commerce and All-China Federation of Industry and Commerce, 2010), and in India, family businesses alone account for 66% of the total gross domestic product and 90% of gross industry output. These businesses also employ 79% of organized private sector workers (KPMG, 2013). Similarly, in the Middle East, outside the oil sectors, 80% of all companies are family-controlled, accounting for the majority share of the region's gross domestic product (PWC, 2012; 2014).

2.2. Entrepreneurship Orientation and Succession Planning

Some reviews analyze the interlinkage of entrepreneurial orientation in succession planning in family firms to understand from an entrepreneurial process perspective where both the entry of new owners and exit of old owners are associated with the pursuit of new business opportunities (i.e., succession in family firms from an entrepreneurial process perspective). Nordqvist et al. (2013) conducted research and reviewed their analysis as there is a need to focus on ownership transition rather than only management succession, and the importance of carefully defining both succession and family firm. It is often suggested that the usual governance structures should be present in family businesses to provide them with a long-term perspective of strategic decision-making and a specific type of stability. When succession planning plays a role in the family business, new situations arise which tend to challenge the environment (both internal and external), and an imbalance state occurs as the predecessor decides to leave or formally hand over the position/business to the successor, leading to entrepreneurial shortsightedness (i.e., limited entrepreneurial orientation and action) (Fotea et al., 2017). We apply strategic decision-making to illuminate this issue and to find ways to cope with it. Hence, decision-making plays a crucial role in succession planning.

Decision-making has long been viewed as a central and fundamental building block in management (Mintzberg, 1973; Rausch & Washbush, 1998). In modern business, the challenge for managers is to find options for improving the decision-making process since most significant decisions directly impact profit generation and positioning of the company in the market. In recent literature, decision-making remains considered as the core activity of managers and the function that separates the responsibilities of managers from employees (Robbins & DeCenzo, 2008). While decisions are also made by other groups in the organizations, the most important decisions are still the responsibility of governing bodies and management.

Decision-making constitutes a very significant and complex function of management that reflects the process of choosing the best alternative (Istrat, Stanislavljev, & Markoski, 2015). It comprises a dynamic and interdisciplinary process (Pimentel, 2011) that involves all forms of activities in the organizations, and its importance is reflected in the fact that all activities start and finish with decision-making (Grubic-Nesic, Mitrovic, & Melovic, 2016). Managers are daily confronted with various decisions, and thus even those which are fairly mechanical in nature and have rather high task certainty require managerial common sense (Dinur, 2011). However, with the advent of globalization, job ambiguity, and task complexity, there is a need for managers to be more adaptive and have greater immediate response (Pearce & Robinson, 2011). According to Grubic-Nesic et al. (2016), managers should be able to make functional and high-quality decisions that are also suitable to improve the workflows and relationships with the environment. Therefore, no one seeks a manager who dislikes decision-making (Brooks, 2011). Managers strive to make sound and practical decisions which allow work to progress smoothly given the relative available information within the context of any resource and time constraints.

Table 1 Family Business.

Particulars	Percentage	Information (Transformed)
Family business constitute	80-98%	Of the business in the worldwide free economy
Family business produces	70-90%	Of the gross domestic product in the most countries worldwide
Family business employs more than	75%	Of the workforce worldwide
Family business creates	50-80%	Of new jobs worldwide.

Source: Poza, E. (2010). *Family Business* (3rd edition); Thomson South Western

3. Results and Discussion

The text underscores the pivotal role that family businesses play in various economies worldwide, constituting the majority of private sector activities and serving as key drivers of economic development and sustainability. Despite their significance, there are challenges related to generational transitions, with a notable proportion failing to successfully transition beyond the second generation. Those that do succeed often prioritize critical aspects such as family governance,

succession planning, corporate structuring, and governance, emphasizing entrepreneurial approaches and the importance of generational changes within family businesses.

Traditionally, family firms are owned and managed exclusively by family members, typically with the founders or first generation serving as both owners and managers. The involvement of family members in business operations varies, with usually two actively participating and one less involved but still interested, ensuring family engagement. Family values strongly influence the business culture, fostering dedication, conviction, and pride among owners and managers. Decision-making processes in family firms differ notably from non-family businesses, often influenced by family involvement and promoting experiential decisions over rational approaches.

Despite the importance of generational change, limited attention has been given to understanding how the relationship between family and employed management evolves over generations. The prevailing management structures often reflect a sense of "order and control," particularly with the founding generation tightly holding reins. Genuine generational change may occur when successors are possibly older than current business leaders. The extent to which succeeding generations take on various roles within the business, such as corporate development or geographic expansion, remains to be explored.

Moreover, the findings suggest that higher levels of family involvement may be associated with lower levels of entrepreneurial orientation, creativity, risk-taking, and proactiveness within family firms. This study aims to address research gaps and unclear results in the literature concerning family businesses in peripheral regions, decision-making processes within family organizations, and the outcomes of entrepreneurial orientation within the family business context.

4. Final considerations

Family businesses constitute a complex and vital aspect of the economic landscape, particularly in small, rural, and remote regions, where they are expected to remain predominant for the foreseeable future. Despite the acknowledged importance of decision-making in managerial activities, there remains a notable gap in research regarding decision-making processes within family businesses. Therefore, further investigation into this area is essential to gain a comprehensive understanding.

A longitudinal study examining decision-making styles across generations within family firms would provide invaluable insights into how these businesses adapt and evolve their decision-making approaches over time. Additionally, while there is substantial research on entrepreneurial orientation and its implications for family businesses, it is imperative to explore the relationship between decision-making styles and entrepreneurial orientation. Understanding which decision-making style fosters or hinders entrepreneurial orientation is crucial for uncovering underlying dynamics.

Furthermore, implementing a corporate governance structure is essential for businesses to promote sustainability and viability. The influence of governance structures on family businesses shapes the type of entrepreneurship that can thrive within them. This presents an opportunity to investigate the correlation between the family governance system and the propensity for entrepreneurship within the family business context. Such research can offer valuable insights into the interplay between governance, decision-making, and entrepreneurial behavior within family firms.

Ethical considerations

Not applicable

Conflict of Interest

No conflicts of interest.

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