Family businesses are critical to the economic health of most developed countries, and New Zealand is no exception; they comprise some 75 per cent of all our businesses and make significant contributions to employment, output and GDP. Yet, despite this, researchers in the field of organisational studies have been slow to pay attention to them. In this issue of the University of Auckland Business Review we address the neglect with a series of articles aimed at deepening our understanding of the dynamics, challenges, and future direction of the family firm.

Michelle Kilkolly-Proffit investigates how, at an early age, daughters become socialised toward taking part in their mother’s business and eventually assuming an ownership role. One of her conclusions: the rise of women-owned businesses worldwide may represent a significant shift in the way family and business interact.

Henry Shi analyses the dynamic relationship between family business and entrepreneurship in post-reform China, whose transitional economy is characterised by weak capital structures, inadequate protection of property rights, and high institutional uncertainty. Xi reports that Chinese family businesses have become a major entrepreneurial cluster in the country’s private economy and that understanding the way they operate will help New Zealand companies collaborate or compete with them.

Researchers Josie Taylor and John Tucker turn their attention to failure in family firms, arguing that it can often be traced to friction between family members. Taylor and Tucker concentrate on three sources of such conflict: ownership, control, and envy, noting that the organisational structure of family businesses reduces the likelihood that they will seek outside assistance in resolving the issues that threaten their survival. And when consultants are engaged, they say, success depends on the process being both confidential and transparent.

Paul Woodfield examines how successful family businesses are sustained across generations, using as his research focus New Zealand’s wine industry. One of the more enduring traits of family businesses is their long-term focus, says Woodfield, and the next generation in such enterprises often has a vital role in advancing innovation that underpins their entrepreneurial orientation. The task for the senior generation is to create an environment that encourages them to be open with that knowledge and to engage in innovation within the family, he says.

Finally, Deborah Shepherd, Christine Woods, and Gaia Marchisio discuss how a tool derived from the study of aerial combat can be used to help family businesses engage in entrepreneurial strategy. They caution that acting entrepreneurially is not about intermittent engagement; it must be a regular, systematic part of a firm’s behaviour.

Collectively, these articles underscore the point that, given an open and enquiring mind, useful lessons for business can be found in the most unlikely places: from the invective-laden heat of a commercial kitchen to the hostile skies of a combat zone.

Vaughan Yarwood
Editor
Articles

Conflict in a Family Business
Failures in family-owned businesses can often be traced to friction between family members.
Josie Taylor, John Tucker

Rethinking Entrepreneurship
Understanding how Chinese family business operates will help New Zealand companies to collaborate or compete.
Henry X. Shi

Socialisation of Daughters
The global rise of women-owned businesses may be altering the way family and business interacts.
Michelle Kilkolly-Proffit

Intergenerational Business
To build sustainable businesses, families must understand how entrepreneurial orientation and heritage interact.
Paul Woodward

Combat-Hardened Strategy
The military can teach family firms a thing or two about survival.
Deborah Shepherd, Christine Woods, Gaia Marchisio

Submission Guidelines
The University of Auckland Business Review encourages insights, reflection and debate on contemporary business theory and practice. It reports on new and notable research, focusing on the implications for business professionals. The journal is published twice a year, in spring and autumn, by The University of Auckland Business School.

The Business Review is a forum for diverse views from various disciplines and aims to bridge the gap between research and practice. The journal publishes editorially-reviewed and peer-reviewed articles which, while based on research, should be clear and engaging.

Articles should be 2500-3500 words in length and supplied in electronic form. Endnotes, footnotes, and references must be integrated into the main text, rather than placed in brackets or indicated by numbering. Please see individual Business Review articles for examples of the journal’s preferred style.

Disclaimer
Articles published in the University of Auckland Business Review reflect the personal opinions of the authors. Neither The University of Auckland, nor any person involved in the journal’s production, accept responsibility or any form of liability for contents.

Copyright © The University of Auckland, 2013.
Permission to make digital or hard copies of all or part of this journal for personal or classroom use is granted without fee, provided that copies are not made or distributed for profit or commercial advantage and that full citation is made. Abstracting, with credit, is permitted.
Socialisation of Daughters in women-led FAMILY BUSINESSES

Growing up with “Mentor Mum”

Michelle Kilkolly-Proffit

“Your son is your son till he gets him a wife: but your daughter’s your daughter all the days of her life”
(17th-century English proverb)

The global rise of women-owned businesses may be altering the way family and business interacts
Many successful female entrepreneurs in New Zealand, as elsewhere, have two jobs: running a business and raising children.

Though seldom mentioned in the business press, there has been recent media coverage of notable female business success stories, including Peri Drysdale, founder of Snowy Peak and Untouched World, who works alongside her daughter Emily, and Colyn Devereux-Kay and Charlotte Devereux, the mother-daughter duo behind the internationally successful EGG maternity brand. Of course, this phenomenon is not unique to New Zealand. Female entrepreneurship is growing worldwide and it is challenging traditional paradigms along the way.

**Spotlighting “Invisible” women**

UNTIL THE mid-20th century, the division of labour in family firms saw Mum taking responsibility for raising the family and perhaps doing administrative work for the business after hours, and Dad conducting business operations as the public-facing proprietor. In a 1985 piece, ‘Women in family business: An untapped resource’, Amy Lyman, Matilde Salganicoff and Barbara Hollander described women in late-20th century businesses as “invisible”, and it is certainly true that a woman’s contribution was often unrecognised and uncompensated. Women had little choice of running a family business in New Zealand before the second wave of feminism, the equal pay disputes of the 1960s and 1970s, and the equal employment opportunity initiatives that influenced wider society in the closing decades of the century.

Now women can be found in a variety of family-business leadership roles, including owning their own family companies, co-founding family businesses, running inherited enterprises, working for parents as managers, forming management teams with siblings, and governing as board members. These roles are quite different from those their grandmothers held in family businesses in the 1940s and 1950s. Indeed, Australian researchers Mary Barrett and Ken Moores, in their recent book, *Women in family business leadership roles: daughters on the stage*, use “spotlight” and “stage” metaphors to describe today’s daughters in family business.

**“Mompreneurs”**

ACCORDING TO the Ministry of Economic Development the number of women who have chosen to be self-employed has more than doubled over the past 30 years. Although represented in lower numbers than their male counterparts, New Zealand women are choosing this as a viable employment option at a much more rapid rate.

Patricia Greene, Myra Hart, Elizabeth Gatewood, Candida Brush, and Nancy Carter, in their 2001 collaboration, *Women Entrepreneurs: Moving Front and Center*, suggest that female entrepreneurs, their ventures and their entrepreneurial behaviours are a unique subset of entrepreneurship and as such should be studied separately. New Zealand-based researchers, Jodyanne Kirkwood, found that in setting up their ventures women entrepreneurs take into account not only personal and work related factors, but family ones as well. Moreover, women run their businesses differently from men, and more often than not integrate them into their existing social webs.

For women, this blurring of family-business boundaries often includes the responsibility of managing childcare. More often than not, these women are primary carers for their children, and are accountable for running households as well as businesses.
However, this is not all bad news. Indeed, the autonomy and control of self-employment allow women to make choices when managing the often competing demands of business and family life. Ultimately, such autonomy may result in a less stressful work-life balance than more structured corporate jobs. In his 2007 article, ‘Mompreneurship as a Challenge to the Growth Ideology of Entrepreneurship’, Steffen Korsgaard suggests that some women are choosing to set up their own businesses in part to facilitate balancing work and childcare duties. If so, “mompreneurs” may be challenging the very concept of entrepreneurship being driven by a desire for growth. And, with more mothers raising children while running businesses, what might this mean for their daughters?

Socialisation in Family Firms

Much of the research to date on socialising a child to the family business has focused on how this process works when the firm’s founder is the child’s father. Collette Dumas was the first researcher to consider the dynamics within family firms when a daughter works with her parent (her studies were focused on daughters and their fathers). She found that when the family business is founded by the father, initiation into the business begins early in life, and it influences the daughter throughout her childhood.

Wendy Handler’s research on next-generation succession, suggested that socialisation into the family firm occurs more profoundly when the child is closer to their mid-teens to early twenties. It may be most accurate to say that family business socialisation processes occur in two phases. First, in childhood, within the family or extended family unit, parents transmit values—including family-business values—to their descendants. Then, socialisation takes a more intentional turn when the potential successor is identified (implicitly or explicitly) and begins formal, full-time work in the business with the parent.

Given the dearth of research on mother-daughter family business teams, and what family business socialisation might be like in such a relationship, I interviewed six mothers and their daughters about what it was like to grow up in and around a business that was owned and operated by one’s mother. The remainder of this discussion highlights some of the anecdotal stories that the interviewees shared about the early socialisation process.

Overlapping Boundaries

It soon became apparent that boundaries between home and business were blurred through most of the daughters’ early years. For some, even the physical location of the business had a profound impact on the daughters’ interactions with their mothers. In the case of two of the mother-daughter dyads interviewed, the family home was also, literally, “the business”. For others, business premises became “home” because of the amount of time the daughters spent there with their mothers.

When the business was actually located at home, both mothers and daughters talked about boundaries between home and work being nonexistent. Sisters Molly and Marie (these and other names have been changed to protect identities), who are both in their 20s, recall life with their mother, Maggie, who founded and ran a full-time business in the publishing industry from a large office within the family home. Molly recalls:

“It was pretty crazy at times because you’ve...
always got staff observing your family life.” Marie adds, “I remember, every day, the secretary used to be working away, typing, and then she would stop and take me to school, and then would return to typing.”

Anne, a daughter in another business, had a similar experience:

“When I got home from school, Mum would be at the restaurant, and so I would go down to the restaurant and be a part of everything there. We had dinner there every night. It would be the only time I could really see Mum.”

Mothers described juggling childcare with business responsibilities and what this meant for their daughters. It wasn’t always smooth sailing. Maggie was legal guardian to nieces and nephews as well as primary caregiver to her own children.

“People would assume that I wasn’t working in the holidays because I was ‘home’ and the kids were home—but I would be, and I might have had five kids there. We would set the backyard up and manage from there… I was working and still mothering at the same time.”

Some of the mothers interviewed talked of their children being “dragged around with them” from business meeting to business meeting. Caroline remembers her mother Caryn’s first business venture, “I have very early recollections of going with her to visit contract workers, and I was very, very young”. Alice, currently a clothing designer and manufacturer, talks about her daughter Anne’s early years in and around her own numerous business ventures:

“Anne was here all the time, this was her play-ground, she grew up in it. She would need to come along to all the meetings that I had with fabric warehouses. Actually, my husband and I would fight about it. He was working for himself and I couldn’t understand why he couldn’t stop and take me to school, and then I had to leave a shop that’s open ‘til five. So she basically lived here in the store.”

The daughters agreed that awareness of what their fathers did for employment didn’t come as early as their understanding of what their mothers did because they didn’t spend the same amount of time with their fathers in the workspace.

Talk over the dinner table featured prominently in the lives of the daughters interviewed, though they didn’t always find it a pleasant experience. Marie says, “talking business over the kitchen table all the time made me so angry. It makes me angry still.”

Perhaps it is only natural that an entrepreneurial age erases, or at least blurs, the rigid boundaries between “work” and “home” life that evolved during the industrial age. Such flexible work arrangements are normally associated with small firms. However, as the highly publicised case of Yahoo’s chief executive Marissa Mayer illustrates, bringing young children to corporate headquarters (admittedly with a nursery next to mom’s office) is at least becoming the subject of speculation and conversation. Once we understand that boundaries are created in our minds, we might explore just how far we can push those boundaries in practice, in organisations large and small.

Working in the Business

BOTH MOTHERS and daughters spoke of early formal work experiences in the business. Anne, talks about first helping in the clothing business of her mother, Alice:

“I first started by helping to put clothes away on coat hangers and things like that. Then at secondary school age I finally graduated to being able to work there on a Sunday.”

Molly and Marie, remember photocopying in their childhood years, and then in their early teens editing for the home-based publishing business run by their mother, Maggie. Molly recalls, “We had holiday jobs, whenever they needed us; we would check and make corrections in books. And then at about 14 or 15 we’d start illustrating for them.” Dot, who ran a dance school when her daughter, Diana, was a child, says:

“Because Diana learned the piano, she would come along and play the piano for class as well as teach, and help me in the class. She’d come up Saturday mornings and help with the little ones.”

Diana, who now runs the studio with Dot, started teaching dance when she was about 12 or 13 years old.

For all the daughters interviewed, becoming formally involved in the business was a gradual process that usually began in their preteen or teen years. That daughters were not merely exposed to their mother’s business, but eventually took on increasingly responsible jobs within the business, is not surprising. What is surprising is the young age at which they were doing this as a result of their mothers trying to balance carer and entrepreneur roles. That is perhaps the point; namely, that circumstances meant that these girls were not passive by-standers in the family business, but were involved at a young age. They generally demonstrated initiative early on and progressively took on increasingly challenging and important roles within the business, with their mothers as natural mentors. Without this subconscious mentoring relationship, daughters are likely to pursue other interests.

The Third Generation—Déjà vu

MANY OF the adult daughters interviewed have children of their own, and both mothers and adult daughters talked about how the third generation are already being socialised into the family business. This often sees both first and second generation—mother and adult daughter—juggling caring for the children of the third generation in the business. Anne says, “when my own daughter was four months old she wouldn’t take her bottle. So she came in to work. At times it was ridiculous because she would be in her walker in the middle of the shop while I was trying to do everything. But Mum helped heaps here in the store.” Anne’s mother, Alice, says that her six-year-old granddaughter is already talking about when she will own the stores.

“She said just the other day; I’m going run the stores. She has got in her mind that that’s what women in her family do.”

Some of the mother-daughter teams interviewed are in the fashion design/clothing manufacturing business, and the grand-daughters in each of the businesses are taking an interest in design already. Anne says her daughter designs t-shirts. “She does her little drawings and little hearts on it like she’s seen me do. So we got one printed onto t-shirts and gave them to family for Christmas. That was her first fashion design. Of course now, with every drawing, she asks is that good enough for a t-shirt?”

Caroline talks about her oldest daughter, who is nine years old and who also spends time designing, going to the next level.
Oh daughter, where art thou?

THE PURPOSE of the research was not to compare and contrast mother-daughter businesses with father-son family businesses. A great deal of attention has already been paid to family succession in family-run businesses. Far less is known about how daughters growing up in a business become socialised toward taking part in that business and eventually assuming an ownership role. Though male entrepreneurs and owner-managers often refer to the balance between their business and home life, the women interviewed in this study led busy enterprises—sometimes a series of businesses—while also juggling significant childcare responsibilities. Daughters raised in homes that were the business, or where the business premises became an extension of the family home because of the amount of time spent there, learned first-hand about the business very early in their childhoods. And socialisation didn’t stop at the end of the business day; it continued into the evening with business talk around the dinner table. These daughters took job roles at an early age and rapidly took on more responsibility.

Though some of the first and second-generation mothers in this study also had sons, this study only included the perspectives of daughters. Implied in the interviews with mothers and adult daughters were hints of different dynamics with the socialisation process for sons. Research that compares the experiences of the sons raised in women-led family businesses in traditionally female industries may provide more diversity in results and perhaps enable further comparisons to be drawn with Lannarelli’s, and Keating and Little’s, earlier work where sons and daughters were socialised differently. Also worthy of further study is the socialisation process when women head businesses in industries that aren’t traditionally female.

Most of the women interviewed ran (and still run) businesses in what might be considered traditionally female industries such as fashion, design and dance schools. Where the businesses were run from the family home, there were no boundaries between home and business. Those with stores or business premises accommodated the children, and mothers frequently took their young daughters to off-site business meetings. In the case of the dance school the children could attend classes while their mother was working because she was teaching a class or in the office on site. As one of the daughters participants suggests: “I don’t have any memories of hanging with Dad on a work day. And that’s probably to do with it being a fairly hazardous area for a kid as he worked on building sites and things.”

It would be interesting to find women entrepreneurs running more dangerous businesses and compare the level of on-site time and its consequences for their daughters’ attitudes toward the business. In the cases at hand, not only did business ownership for these women give them more flexibility in childcare arrangements, the type of industries that these women were working in could support overlapping home and work commitments. Moreover, in many cases the grandmother contributed support and deepened the socialisation of the third generation into the business.

As the quotations above suggest, daughters grow up rather quickly in terms of applying themselves to the needs of the business and it is only natural that they should join their mothers in it. This defies the lingering stereotype that girls don’t find business interesting. Indeed, growing up with an entrepreneurial mother makes owning the business (or a business) an expected way of life for some—but not all—daughters. Given that small businesses are the world’s fastest growing businesses and that women are starting businesses at a faster rate than men, it is worth thinking about the impact women entrepreneurs are having on their daughters, and the impact these future generations will have on the business world.

KEY TAKE-OUTS

- Many women entrepreneurs, who are also mothers, are choosing to set up their businesses in order to juggle work and caring for their daughters.
- This overlap of family and business is leading to early socialisation of daughters to their mother’s business, possibly earlier than in male-led businesses.
- The number of women-owned businesses world-wide, and the compounded impact of their daughters, may represent a significant shift in the way family and business interact in the future.
FOLLOWING the realisation that families can have a significant influence on entrepreneurship, and vice versa, the past decade has witnessed a dramatic surge of research into family business and entrepreneurship at their point of intersection. Examination of this dynamic in post-reform China, where family firms are an important source of entrepreneurship, has implications for New Zealand companies that may find themselves competing or collaborating with such firms.

Understanding how Chinese family business operates will help New Zealand companies to collaborate or compete.
Entrepreneurship in Chinese family business

IN GENERAL, China’s transitional economy is characterised by weak capital structures, limited legal protection for property rights, and high institutional uncertainty, which creates an environment in which entrepreneurship often develops differently than in more advanced economies.

One notable effect of this pattern is that families have played a central role in almost all aspects of China’s private entrepreneurship. They are the primary – and usually the most durable and stable – source of capital, labour, intelligence, and psychological support. As Xiang Bing and Teng Bingsheng of China’s Cheung Kong Graduate School of Business outlined in their commentary on the growth of Chinese entrepreneurship, family businesses have become a major vehicle of private entrepreneurship, in both quantitative and qualitative terms.

This is a recent phenomenon. Entrepreneurship was historically suppressed in Communist China, and family businesses virtually disappeared from its economy after 1956, when the private sector was eliminated following the establishment of the centrally-planned economic system. Prior to the launch of a series of economic reforms in the late 1970s and early 1980s, private entrepreneurship in China existed on an extremely small scale in the form of an underground black market. For more than two decades, family businesses, like all other non-state enterprises, were considered an ideological and political taboo.

The rebirth of family businesses in China began in 1979, when the central government officially endorsed a policy that acknowledged the contributions of private entrepreneurship to economic development as a supplement to China’s socialist economy. However, due to policy ambiguity and continued distrust of government, family businesses did not prosper until the 1988 Constitutional Amendment finally legalised private enterprises. As many observers have pointed out, government policies in China have been notoriously volatile, and private entrepreneurship is not consistently favoured by the institutional environment, where the legacy of former centrally-planned system often intervenes. In his work on China’s legal reforms, University of British Columbia law specialist Pitman Potter noted that the conservative faction in the Chinese Communist Party still tends to consider private entrepreneurship a potential threat to the party’s legitimacy, ideology, administrative authority, and moral standards. Thus, it is easier and safer for Chinese entrepreneurs to have their business under the family umbrella, and this realisation has resulted in the rise of family businesses and, to an extent, their family orientation.

Interestingly, the Chinese government has not endorsed family orientation as it did family ownership. China’s private sector has sustained dramatic growth, particularly since the 1990s when the central government decided to deepen its market-oriented economic reforms and committed to a socialist market economy. Meanwhile, a government-led teaching of the modern enterprise system, which advocates an increase of market orientation in business management and operations, has expanded from China’s state-owned sector to private SMEs, most of which are family-owned and managed. In effect, the Chinese government explicitly encourages private entrepreneurship while implicitly containing family orientation. This makes China an exciting laboratory for the study of family orientation and entrepreneurship.

Case studies in China

IN 2010 I undertook field research in China to gain insights into the effects of family orientation on entrepreneurship in the context of trans-generational Chinese family businesses.

Case studies were conducted in the eastern Chinese province of Jiangsu, where family business and entrepreneurship have developed strongly and consistently. Given that a large number of local family businesses had completed, or were in the processes of completing, intergenerational succession, my work focused on those that had just entered their second generation. Eight small and medium-sized businesses were chosen, in each of which the founder parents had retired and no longer engaged in the business on a daily or routine basis. The successor owner-managers (SOMs) were key decision-makers and had dominant authority in the businesses, even though some of the retired founders were, at times, still consulted.

To achieve sufficient information, and to ensure the trustworthiness of the data, several methods were used, including semi-structured interviews, personal observations, and document inspections. Information was collected from various sources, including the SOMs, employees from management and non-management positions, SOMs’ family members and relatives who were engaged in the business on a daily or routine basis. The successor owner-managers (SoMs) were key decision-makers and had dominant authority in the businesses, even though some of the retired founders were, at times, still consulted.

Eight small and medium-sized businesses had just entered their second generation. Given that a large number of local family businesses had completed, or were in the processes of completing, intergenerational succession, my work focused on those that had just entered their second generation. Eight small and medium-sized businesses were chosen, in each of which the founder parents had retired and no longer engaged in the business on a daily or routine basis. The successor owner-managers (SOMs) were key decision-makers and had dominant authority in the businesses, even though some of the retired founders were, at times, still consulted.
were either directly or indirectly involved in the businesses, and external stakeholders such as clients and government officials. To provide a common ground for presentation and interpretation of descriptive data and to increase the data's intuitiveness, a scoring system, from 5 to 1, was used to evaluate fifteen criteria. These were: family wealth, values, employment, reputation and social status, and continuation and succession—to capture the firms’ business objectives; finance, trust, guanxi networks, knowledge and expertise, and organisational culture—which examined the firms’ resources; substitute decision-makers, participation, consultation, implementation, and decision review—with regard to the firms’ decision-making. The total scores indicated the overall value orientation of the businesses. Typically, a higher score indicated the firm’s emphasis on family values and interests, and therefore its greater family orientation. A lower score suggested that the business was more responsive to market intelligence and values, and hence less family oriented. Entrepreneurship was assessed against the innovation typology outlined by Thomas Robertson in a pioneering 1967 article. Robertson defined three types of innovation by examining their relationship to the firm’s existing business, labelling them discontinuous, dynamically continuous and continuous innovations.

Two sets of data—on the firms’ value orientation and entrepreneurship—resulted from the fieldwork, and they generated interesting findings. On one hand, the eight Chinese family businesses presented different clusters of value orientation—two were family-oriented, three market-oriented, and three were hybrids combining both orientations. On the other hand, entrepreneurship data indicated three distinct patterns of activities, differing between radical and incremental, and resulting in discontinuous, dynamically continuous, and continuous innovations.

As Figure 1 illustrates, when the two sets of data were combined and compared, an even more interesting picture emerged with regard to the relationship between family orientation and entrepreneurship. Towards the family orientation pole, the two businesses appeared to be the most incremental entrepreneurial players, focusing on strengthening existing business with continuous innovations. This was consistent with the classic view of family business, which asserts that family orientation is associated with innovation of a less radical
nature. The other six businesses, if treated as a whole, were less family-oriented and evidently more radical in their entrepreneurial processes, resulting in their innovations being less continuous vis-à-vis their respective existing business.

Nevertheless, inconsistencies were also evident. Of the six less family-oriented businesses, three were very close to the market orientation pole, with minimum influence and involvement of the owning family, and the other three took a hybrid approach by combining family orientation and market orientation. Theory suggests that the most radical entrepreneurial processes and discontinuous innovations should have been implemented by the three market-oriented businesses, and that the hybrids should have produced no more than dynamically continuous innovations. Surprisingly, it was the other way around; the market-oriented businesses produced dynamically continuous, rather than discontinuous, innovations, and their hybrid counterparts—with greater family orientation—were the most radical innovators.

The family, the generation, and the legacy

CERTAIN FACTORS must have nuanced the effects of family orientation on entrepreneurship in the second-generation Chinese family businesses. Such nuances affected the SOMs’ attitudes and behaviours, and subtly changed the firms’ value orientations in entrepreneurial processes. Given the trans-generational nature of family business, and the central role of individual owner-managers in small to medium-sized family businesses, an individual-level analysis was then carried out to uncover these intergenerational subtleties.

The first insight was that the SOM’s previous experiences, particularly those related to succession, were relevant to his or her ability and motivation to undertake entrepreneurial and innovative activities. Those who were explicitly designated as prospective successors, and therefore who received purposefully programmed successor training from the founders, appeared to be more capable of maintaining the existing business, and more willing to do so than their counterparts whose successions were unplanned, and who were not systematically trained as prospective successors. This mirrors the argument put forward by John Ward, director of the Kellogg School of Management’s Centre for Family Enterprises, that succession planning is an effective way to sustain established family businesses. In a similar vein, Spanish researchers Ercilia García-Álvarez, Jordi López-Sintas, and Pilar Gonzalvo view successor designation and training as an intergenerational socialisation process through which the first-generation ideology and legacy is gradually transferred to, and internalised by, the second-generation SOM. He or she, in turn, unconsciously prioritises continuous business growth over radical change.

Second, the founder-successor relationship was found to have a significant impact on the successor’s perception of, and attitudes towards, the existing business, which in turn influenced the firm’s entrepreneurial and innovative activities. Indeed, as depicted in Figure 2, with an agreeable and engaged founder-successor relationship, the successor was more likely to accept the founder’s direct or indirect ongoing involvement in the business after succession, with a preference for strengthening the existing business. This resulted in continuous or dynamically continuous innovations. On the other hand, less friendly founder-successor relationships contributed to the successor’s resistance against the founder’s legacy and a desire to either completely or significantly change the exiting business and its practices. With an unfriendly and disagreeable, or even hostile, founder-successor relationship, the founder’s ongoing involvement in the second-generation business became unlikely. The successor’s desire to change, and the absence of the founder’s ongoing involvement, enabled the successor to pursue an entrepreneurial opportunity that had little or no relevance to the existing business. This resulted in discontinuous innovation.

SOMs of the three least family-oriented businesses were all designated by their respective founders as prospective successors and received comprehensive successor training. They had collaborative relationships with their founders, and generally embraced the founder’s ongoing involvement in the businesses after succession. Although

Figure 2: Founder-successor impacts on innovation

**FSR**—Founder-successor relationship

**FOI**—Founder’s ongoing involvement

Low FoI

Discontinuous Innovations

Dynamically Continuous Innovations

High FoI

Continuous Innovations

Dynamically Continuous Innovations

Agreeable FSR

Dissagreeable FSR

C90 is a typical small family business in an eastern Chinese province, which began life in the 1980s as a plastics processor. The successor owner-manager (SOM) is the founder’s eldest son.

In the early 2000s, C90’s owning family experienced a series of disputes over business development and succession arrangements. The founder and the SOM disagreed on most business decisions, which, coupled with other conflicts, contributed to a deteriorating relationship. For some time, the founder even considered suspending the SOM’s successor candidature in favour of the SOM’s younger brother. This in turn led to more intense family conflicts which significantly affected business performance.

In 2008, the SOM, with his in-laws’ assistance, launched a “succession coup”, and successfully claimed most of the founder’s leadership in the business. Radical restructuring followed and C90’s plastics processing business was soon completely abandoned. According to the SOM, the main reason for these changes was that continuation of the existing plastics processing business would potentially allow the founder to become involved in the company’s second generation. The SOM then introduced the production of vehicle ignition systems to C90’s business and the founder was strictly excluded from C90’s decision-making and all management activities. In this way, the SOM effectively discontinued the first-generation legacy and practices, and redefined the second-generation business through the implementation of a range of radical innovations that resulted in new products, processes, and organisational structure.

The following year, the SOM declared his father’s “full retirement”.

**Figure 2: Founder-successor impacts on innovation: The example of C90**
Entrepreneurship

this involvement differed in form and intensity across these businesses, it contributed to the effective continuity of the first-generation legacy in the second-generation businesses, which in turn subtly directed the SoMs to a general focus on the existing business when entrepreneurial opportunities were created and exploited.

On the other hand, SoMs of the three businesses with a hybrid combination of family orientation and market orientation had not been considered as prospective successors, nor had they been provided with successor training. Being free of the founder’s designation and training enabled them to develop business abilities that were not necessarily relevant to the existing business. Coupled with an indifferent or disagreeable relationship with the founders, these SOs excluded the founders from ongoing involvement in their businesses, either intentionally or subconsciously. It was the first-generation legacy per se that was rejected. The minimisation of the first-generation legacy in these businesses virtually freed the SOs from the founder’s influence or interference, and they did not have to bear major ongoing commitments to their respective founders, through the existing business, which enabled more radical entrepreneurial thinking and behaviours.

Conclusions

TWO MAJOR conclusions can be drawn from the research. First, entrepreneurship in small to medium-sized family businesses is not simply a firm-level undertaking. As the family system and the business system are interactive and the owner-manager plays a critical role in both systems, attention needs to be paid to both the business context and the family context, as well as to an individual level. To deepen our knowledge about entrepreneurship in family businesses, a dual-level approach is necessary.

Second, in successive-generation family businesses, the effects of family orientation on entrepreneurship are nuanced by the successor’s perception of, and reaction to, the preceding generation’s legacy. Recognition and embracing of the preceding generation’s legacy typically turns the firm’s entrepreneurial processes towards existing business, resulting in continuous, or dynamically continuous, innovations. Rejection of the preceding-generation legacy inclines the business to radical entrepreneurial processes, increasing the likelihood of discontinuous innovations. In order to uncover the way in which family orientation influences entrepreneurship in successive-generation family businesses, it is necessary to adopt a cross-generational perspective.

How entrepreneurship is influenced by family-owned businesses is a work in progress, with many questions yet to be answered. However, insights from various socio-economic environments are helpful in generating a holistic understanding of entrepreneurship in family business. In this sense, China can shed light on family businesses in New Zealand. At a pragmatic level, it is important that we obtain knowledge about Chinese family businesses, which are increasingly competitive in both domestic and overseas markets, and may become either partners or competitors of New Zealand companies in China or elsewhere.

KEY TAKE-OUTS

- Family business is a fuzzy concept, with no commonly accepted definition. Beside family ownership, it is the extent to which the business adopts a family orientation in its management that determines the nature of the business.
- The influence of family orientation on entrepreneurship is not necessarily negative, though intergenerational subtleties can significantly affect innovation.
- Chinese family businesses have become a major entrepreneurial cluster in China’s private economy. Understanding the way they operate will help New Zealand businesses collaborate or compete with them.
CONFLICT IN A FAMILY BUSINESS

Josie Taylor
John Tucker

Failures in family-owned businesses can often be traced to friction between family members.

LENGTH: 10 min (2528 words)
FAMILY BUSINESSES are relatively straightforward to start, intricate to manage and exceedingly complicated to exit. Empirical research and anecdotal evidence both suggest that many failures in these businesses can be traced to personal conflict between family members. Television programmes present such conflicts as entertainment—and indeed they often produce good ratings. But while programmes such as Gordon Ramsey’s *Kitchen Nightmares* may attract millions of viewers who want to see conflict played out on their television screens, for those involved in conflict in a family business the reality can be the thing of nightmare.

One of the questions this poses is: why might people want to watch family conflict portrayed as entertainment?

A possible answer is that we are all members of families and can therefore relate to the various conflicts we see being acted out on screen and the pain that can result. We are also perhaps intrigued as to how these conflicts might be resolved and, when the conflict is in the context of the family business, how its resolution impacts the sustainability of the business.

Case Study

ONE EPISODE of *Kitchen Nightmares* featured a Greek family-owned and run restaurant, and whilst on the surface we might assume that the difficulties arose from business issues, it soon becomes obvious that there is a serious breakdown in communication stemming from conflicts between mother and son. The mother carried all of the business debt and although the son was head chef he assumed none of the debt burden. The resulting tension caused the son to lose interest in the restaurant. As the programme unfolds, it becomes obvious that not only did the son not want to work in the business, he did not want to be anywhere near it. Every time he appeared in the restaurant his mother and his Aunt, who also worked there, gave him a hard time over the high level of debt carried by his mother. There was an eventual “clearing of the air”, and having regained some of his enthusiasm for the restaurant the son again took charge of the cooking as head chef. The restaurant was revitalised by Ramsey’s makeover and it seemed that everything was back on track. However, the final part of the programme shows that after a couple of months the restaurant closed. We are not told why, but it is highly likely that the conflicts over the debt and other relationship issues may well have been the central cause. This is a recurring theme in our work with families in business. Family members often treat each other with far less respect than they treat complete strangers and this can lead to hurt, anger, pain and a complete breakdown in communication. It is all too easy for individuals to get caught up in the emotional dynamics at the expense of rational decision-making.

Many family businesses recognise the usual signs of problems in the business, such as poor cash-flow, declining balance sheet and a drop in profitability. At such a point they can, and often do, seek the help of an “expert” such as a marketing specialist, an accountant or a lawyer, who can usually assist and give support in specific areas of the business. However, the family is often reluctant to seek assistance with family issues. Clarity of thinking is often the first casualty when the business confronts the family dynamics. It is as if entrepreneurs and owners feel on safe ground when dealing with financial capital, but when confronted by the problems of dealing with their emotional capital they lose their perspective. In our experience, one of the major reasons for this unwillingness to confront and deal with the family issues is the role of the head of the business. The vast majority of family businesses are still controlled by men and the approach to succession reflects a male view of the world. In simple terms this is a style of knowing and telling which lead to assumptions and truths that largely go unchallenged. The past ten years may have seen some changes, but not fundamental ones. On the whole, men still “do the business”. Being the head of a family business, like any other enterprise, can be very lonely and it is often difficult to find the right person with whom to discuss the various issues that arise. When a family head behaves as if immortal by avoiding a planned transition, he is only being true to the drive which is part of the secret of success, but which becomes his Achilles’ heel. It is therefore all the harder to realise that the final consummation may be to “bequeath”.

Although family business consulting is well established in the United Kingdom and the United States, it is still a relatively new field in New Zealand and one that needs to be developed. To be effective, consultants must have the necessary skills and experience to work with families. The process must be both confidential and transparent,
and this requires a high level of skill and understanding on the part of the consultant and a high degree of trust on the part of the client. Alongside transparency it is also important to understand and articulate expectations. Typically, the absence of a planned transition in the family business, involving all of the key stakeholders, will more likely lead to expectations not being met and will result in conflict—usually between generations of the family.

**Common Causes of Conflict**

MANY ISSUES can cause conflict and affect the sustainability of a family business. Here we concentrate on three: ownership, control and envy.

**Ownership**

HANDING OVER ownership of the family business is an emotionally sensitive process with the potential to create significant conflict between parents and their children and between siblings. In the past there were unwritten rules about how property was transferred. Farms, for example, were passed down to the eldest son and whilst daughters may have found this unfair, it was accepted as “the way it was done”. Sons and daughters knew the unwritten rules and what they meant in practice. Each gender was groomed differently for their future
There is no right or wrong answer to the question of ownership succession and it is rarely possible to achieve an outcome that is seen as equitable by all involved. Fairness is in the eyes of the beholder and its application to passing on the family business is likely to be the source of an almost infinite variety of interpretations.

Different perspective is offered it causes conflicting emotions.

In the context of family business, mental models can create expectations that may be unrealistic, and when a person’s expectations are not met, powerful emotions can be released that often result in conflict. For example, when key family members are not informed of ownership succession plans they are pre-determined to act a certain way, based on incorrect assumptions. If a son assumes he will take over the family business, and hasn’t realised that his sister has been identified by the outgoing generation as the best future leader, it would only be natural for him to act as a future chief executive. We can imagine the conflict that could arise if his sister was unexpectedly given that role. Individual values, beliefs and upbringing can influence a person’s mental model. Therefore it is important when working with a family that we investigate each key stakeholder’s deepest and most profound goals, values and aspirations through a process of structured and non-judgemental enquiry.

Control

GIVEN THE complexity of ownership transition, the question of who has control represents a crucial decision. “Insider” and “Outsider” owners (i.e. owners who work in the business and owners who don’t) typically have different perspectives on share ownership. Outsiders often regard the insiders as plunderers of their legacy. They view their shares in the family business as poor investments because they are too concentrated, offer too little return, and are subject to too much control by insiders who divulge little information and pay inadequate dividends. Insiders, on the other hand, view the outsiders as parasitic, detached investors who are uninterested in the growth of the business, too focused on distributions, overly vocal with advice and criticism and too willing to inject family concerns into business decisions. Such differences can breed a resentment that is detrimental to the effectiveness of the ownership group as a whole or harmful to personal relationships.

Regardless of how well the family gets along, old rivalries, new in-laws, or something completely unforeseen can trigger a conflict between “parasites” and “plunderers”.

One way to reduce the risk of resentment and tension between inside and outside owners is for the family to develop a governance system (structures and processes) to direct and control the family business. The objectives of the family governance system are to:

• Provide clarity on the roles, rights and
responsibilities of family members, owners and business members
• Bring the right people together at the right time to discuss the right (important) things
• Provide the means to resolve differences and minimise conflict
• Reconcile individual rights, values and expectations concerning the business
• Reconcile the different concerns of the family and the business (see figure 1)
• Enable the sharing of information
• Help the board of directors and senior management focus on the best interest of the business (not on the interest of any particular individual or branch of the family) and resolve business issues by regulating appropriate family and owner participation in business decisions.

The process of working together to develop a governance system that articulates the family’s vision and core values can itself help align the family and make family members feel closer.

Frequently, families attempt to develop a governance system without the assistance of an outside specialist, which risks opening up issues that cannot be easily dealt with and often leads to greater conflict. Without an outsider facilitating these development sessions, family members can be cruel and act with a complete lack of respect for each other. It is amazing how much bad behaviour family members endure from one another; but equally surprising how that behaviour changes when there is a non-family member present.

Developing a family governance system takes time and many business owners are so busy with day-to-day operations that they keep putting it off. Generally, families initially take some time out to develop a system of governance, but find it takes more time than they anticipated. It is an on-going process, requiring reviews and amendments to accommodate changes in the family and business. A family governance system won’t necessarily identify a specific person or persons to assume ownership,
management or control, but it provides a written set of rules and policies to give members a sense of identity and mission that transcends their rights as owners and their roles in the business.

**Envy**

ENVY IS another contributing factor to conflict in the family business, and in surprising ways. It is often related to conflict around business succession and control decisions that a family may make and the mental models that family members have created. Left unresolved, envy has the potential to fragment the family and do real damage to the business. Commonly when there is envy between siblings it can be seen by other family members and is often evidenced in snide comments and put downs, but often these issues are not addressed for fear of creating conflict.

Envy has its roots in childhood and can stem from anxieties about being rejected, unfair treatment between siblings from parents, or expectations put on one. Sometimes it comes from distorted perceptions and sometimes it is justified in fact. For example, it may be that a father sees his son as the family’s future business leader, and so grooms the son to take his place. The daughter may be envious of her brother as a result, but her perception may lead her to believe that her father loves her less. In reality, the father may believe that the son is the right person to lead the business, which he plans on transferring ownership on a 50-50 basis. He may therefore want his son to head the business in order to best protect his daughter’s share. Another example of envy in the family business is when a father does not want to surrender control of the business to his son in case the son does a better job than he did and consequently diminishes the father’s image.

Envy can be a very damaging element in the constellation of the family, and when transferred to the family business and combined with all of the other emotions facing the family when they work together, it can be even more destructive.

**Conclusion**

WHEN THERE is conflict in a family business, most of the problems are caused by individuals within the family. They do have a say in their problem and the power to alter the outcome. Achieving this may mean working with professionals who understand the dynamics of family businesses.

If the family and their advisers get it right the often painful journey they have taken together will have been worthwhile and the devastating consequences experienced by a significant number of families in business can be averted.

Surely it will only be a matter of time before reality-television producers will see the abundance of opportunity to expose the unique human elements of families in business. They have scraped the surface of some issues that have intrigued us in Gordon Ramsey’s *Kitchen Nightmares* and the UK programme *Country House Rescue*. But we are yet to see a closer examination of the specifically unique issues and the possibility of the unique solutions available for families in business. If, or when, this happens one benefit will be the message that help is available.

**KEY TAKE-OUTS**

- Many failures in family-run businesses can be traced to personal conflict between family members.
- The organisational structure of family businesses makes them less likely to seek outside assistance over such issues as ownership, control and envy that threaten their viability.
- When consultants are engaged, the process must be both confidential and transparent, and this requires skill and understanding on the part of the consultant and trust on the part of the client.
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.
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 firm. The brand remains as a legacy 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 firm.

Intergenerational family businesses refer to business 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—one 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 orient themselves 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.

Entrepreneurial orientation

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

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

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...
the reverse can also be true. Given the senior generation(s) possess. However, education and experience that the accumulated knowledge to the next generation. This means that the senior generation will pass on knowledge to the next generation. In a family business, it is often assumed that the senior generation has 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 asent 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 from the family. The knowledge overlap can be expressed as diverse knowledge sharing from the family enterprise. Obviously, a coin has two sides—obverse and reverse respectively.

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 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 another winery to start an organic growing operation. Initially dubious, the father set aside several hectares for her to experiment with. What eventuated was a process, this theme was formulated as planning, transition, and ascension.

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 another winery to start an organic growing operation. Initially dubious, the father set aside several hectares for her to experiment with. What eventuated was a
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.

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.

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 overzealousness 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.
There is a great urgency these days for family businesses to develop and retain strategic processes, capabilities and orientations that are entrepreneurial in nature. Acting entrepreneurially is not about sporadic engagement—it needs to be a regular and systematic part of a firm’s behaviour. OODA is a simplifying framework that can be applied when engaging in entrepreneurial strategy. Derived from the study of aerial combat, it is founded on the concept of agility and the ability to rapidly change one’s orientation in response to what is happening in a world of ambiguity and uncertainty. Here we briefly describe OODA and outline guiding principles that help address some of the challenges facing entrepreneurial family businesses.
Acting entrepreneurially is not about sporadic engagement; rather it needs to be a regular and systematic part of a firm’s behaviour.

FAMILY FIRMS are critical to the economic well-being of most, if not all, Western nations, and in New Zealand they comprise upward of 75 per cent of all businesses.

Small and medium-sized enterprises (SMEs) also play an important role in economies the world over, providing significant levels of employment, output and contribution to GDP. Organisational studies have been slow to pay attention to either of these business forms. Yet, as significant economic contributors, both SMEs and family businesses warrant further in-depth attention and research. This conclusion holds as true for the area of strategy as for many other important organisational issues and themes. Regardless of size and ownership structure, good strategic thinking and decision-making are critical. However, family-owned businesses often devote little formal management attention or resources to strategic issues.

Enduring Family Businesses

ONE OF the key distinguishing characteristics of family businesses is the value they place on longevity. Entrepreneurial families aim to pass the business on to succeeding generations and they are known for being committed owners, supplying “patient capital” to build a lasting family legacy. It is not surprising, therefore, that they survive longer, on average, than non-family firms. However, longevity in today’s competitive environment is not an insignificant challenge: global crises and ongoing uncertainty, together with intense competition and rapid technological change all amplify the need for organisations to be entrepreneurial in order to survive and prosper. The crucial question is how family businesses can simultaneously maintain their much-valued and competitively advantageous long-term orientation while simultaneously being entrepreneurial, adept and nimble in rapidly changing and complex operating environments.

Family firms face an urgent need to develop and retain strategic processes, capabilities and orientations that are entrepreneurial in nature. This requires an entrepreneurial mindset and faster reactions to complex situations. Additionally, research has shown the benefits that quick decision-making can have on family firms’ competitive advantage. Acting entrepreneurially is not about sporadic engagement; rather it needs to be a regular and systematic part of a firm’s behaviour. Therefore, tools, techniques, and methods that encourage
faster, more effective decisions within an entrepreneurial strategic framework are of value to SME family firms.

Exploring the intersection of entrepreneurial family businesses and strategy presents an interesting challenge and an opportunity. While there has been a great deal of research into family businesses, including their similarities to and differences from non-family businesses, and the manner in which they are managed and run, the strategic management of family firms has largely been overlooked. However, rather than assume that strategy and strategic thinking as it has been understood in large corporate and public sector organisations automatically applies to entrepreneurial SME family businesses, we suggest that different tools, frameworks and heuristics, such as OODA, may need to be considered.

**OODA as entrepreneurial strategy**

As an organisational framework or heuristic, the OODA loop addresses three fundamental challenges inherent in entrepreneurial family-owned SMEs: the need to reconcile the wants and desires of both the family and the business; the need for family businesses to be opportunely focused and innovative to stay relevant and prosperous in ever-changing global conditions; and the need for such businesses to be true to purpose while also being adaptive to change and able to act with necessary speed and agility.

Colonel John Boyd of the United States Air Force originally proposed what has become known as the “OODA loop” in a military context, drawing on the combat experience of fighter pilots to theorise about the links between cognitive processes and action. However, it has subsequently been proposed as a useful strategic tool for business, and its fit with the nature and characteristics of family businesses has been explored.

Our aim is to use this framework to develop a more disciplined entrepreneurial mindset in those family firms whose size and stage of expansion lead them to act opportunistically and entrepreneurially. The OODA (Observe-Orient-Decide-Act) loop offers an interactive, non-sequential process that allows flexibility in making critical decisions in unpredictable, constantly changing environments. It addresses both the development of strategy and the operational implementation of that strategy. As a framework it offers both a useful heuristic tool for entrepreneurs and a useful way of thinking about strategy, entrepreneurial action and the decision-making process.

According to Boyd, the timing of action is often more important than its magnitude, since a time-based approach can overcome significant disadvantages in size and technology. This idea, developed in a war context, has been imported into the business world, first by Boyd and then by business analysts, researchers and advisors. Using speed and agility to combat size, resource and technological disadvantages has significant potential for family-owned SMEs.

By identifying time as an often scarce resource, Boyd argued that agility and the timing of important strategic moves may indeed be a competitive advantage, even when there is an apparent size or technological disadvantage. Simply put, the OODA cycle operates in a competitive business environment as follows: decision makers gather information in the Observe phase, they filter this information through the Orient phase and then make Decisions (hypotheses) and take Action. The cycle is repeated continuously as the organisation works to execute rapid OODA loops.

Chet Richards, a close associate and long-time collaborator of Boyd, recontextualised the strategy for business in his 2004 book Certain to Win, with Boyd commenting on and correcting every draft of the book until his death in 1997. In Certain to Win Richards presents a detailed discussion on creating a cultural climate for success and on the place of the OODA loop in that success. He argues that while agility and competitive advantage can be achieved through the execution of fast, flexible OODA loops, decision-making will not succeed unless there is an organisational climate for operational success.

According to Richards, this organisational climate builds on Boyd’s understanding of strategy and a more comprehensive appreciation of the Orientation phase of the OODA cycle. Successful strategy, says Boyd, gives us the ability to survive on our own terms in a chaotic, confusing and uncertain world. Strategy serves to harmonise the efforts of people within an organisation and it emerges as a result of changing intentions that are focused on some aim or purpose. Winning in business—surviving on our own terms—requires this aim or purpose to provide a unifying vision that motivates people within the organisation as well as attracting and keeping customers. Thus the first task of strategy is to define and win agreement on what such a purpose might be.

For family businesses, as previously mentioned, this unifying vision may well be linked to sustaining the family business legacy across multiple generations.

Once an organisation forms a clear view of its aim or purpose, it must cultivate an organisational culture or climate that will enable the business to execute fast, flexible OODA loops which serve that purpose. Boyd argues that such a climate can be found through the key attributes of Blizkrieg (the German concept of fast-moving warfare). The four attributes are: Fingerspitzengefühl—intuitive feel; Einheit—mutual trust, unity and cohesion; Auftragstaktik—the contract of leadership; and Schwerpunkt—any concept that provides focus and direction to the operation. According to Richards, Boyd often stressed a hierarchy of importance: “People, ideas, hardware—in
that order!”. Each individual in an organisation is encouraged to develop their intuitive knowledge and competence; this “fingertip feel” is understood as “experience in action” and is the product of self education and a learning culture. Rather than draw solely on slower, analytical, explicit decision-making processes, Boyd insisted that we should “emphasise implicit over explicit” to help us shape and adapt to rapidly changing circumstances. 

Boyd used the phrase “implicit guidance and control” in the OODA loops to acknowledge the importance of this aspect of the decision-making process. Mutual trust, unity and cohesion then underpin the way individuals work with each other in a competitive organisational culture. Mutual trust is the internal harmony that exists and a changed reality lie opportunities and a changed reality lie opportunities. This overarching purpose, the single most important part of the cycle is the orientation phase and the implicit guidance and control that this phase exercises on the decision-making cycle. Fast Company magazine’s deputy editor Keith Hammers suggests that it is helpful to think of the loop as “an interactive web with orientation at the core.” Metaphorically speaking, orientation is the compass that sets the focus and direction of the decision-making cycle; it is constantly being aligned to what is observed in the external environment and filtered through the various components that inform our orientation. Orientation provides us with an implicit repertoire of psychological skills. Cultural traditions, genetic heritage and previous experience help us interpret a situation; when combined with analysis and synthesis, we draw on new information coming to us through the observe phase. It then guides the decisions made and action taken, which provide further feedback. Of course, this may involve shifting our “compass” if what we observe does not match our orientation. A business should look constantly for mismatches because in any misalignment between a business’s original understanding of the environment and a changed reality lie opportunities to seize competitive advantage. This

<table>
<thead>
<tr>
<th>OODA</th>
<th>DESCRIPTION</th>
<th>POSSIBLE TOOLS &amp; FRAMEWORKS</th>
<th>PROMPT QUESTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>OBserve</td>
<td>360° observation of the external environment</td>
<td>SWOT, PESTE, CAGE,</td>
<td>What is happening in the global and local context of your business?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Porter’s Five forces.</td>
<td>Where are your “blind spots”?</td>
</tr>
<tr>
<td>ORient</td>
<td>Internal articulation of the purpose and culture of the family business, the way we do things around here and why.</td>
<td>Written and shared articulation of core values.</td>
<td>What are the anchoring values of your organisation?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Vision and/or mission statement.</td>
<td>Why does this family business exist?</td>
</tr>
<tr>
<td>DECide</td>
<td>How to win today and tomorrow.</td>
<td>Decision-making matrices.</td>
<td>What is your competitive advantage?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Decision trees.</td>
<td>What is your core competency?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>SMART goals.</td>
<td>What is your business model?</td>
</tr>
<tr>
<td>A ct</td>
<td>Execution—make it happen.</td>
<td>Feedback/ accountability loops.</td>
<td>What needs to happen:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Metrics.</td>
<td>• by whom?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Benchmarks.</td>
<td>• with what resources?</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Accountability is it happening? If not, why not?</td>
</tr>
</tbody>
</table>

**KEY**

**SWOT** Strengths, Weaknesses, Opportunities, Threats

**PESTE** analysis: Political, Economic, Social, Technological and Environmental

**PORTER’S FIVE FORCES**
- Threat of new entrants
- Threat of substitute products or services
- Bargaining power of customers (buyers)
- Bargaining power of suppliers
- Intensity of competitive rivalry

**CAGE distance framework:**
- Cultural Distance
- Administrative Distance
- Geographic Distance
- Economic Distance
Challenging dominant logic

It is important to bear in mind the “dominant logic” of a company, which is the natural organising principle, there is a risk that without questioning or periodic review it will cease to be valuable in driving the business forward. As family owned small and medium-sized businesses grow, they need to be more disciplined across a variety of dimensions including strategic thinking and decision making (and, naturally, in the execution and review of such decisions). OODA challenges the dominant logic.

The OODA framework does not require extensive resourcing in order to apply it quickly and effectively in the development of entrepreneurial strategy. Yet it is capable of incorporating the dynamics of family businesses—and such dynamics are certainly likely to impact on both strategy process and outcome. The OODA loop enables three critical challenges for entrepreneurial family-owned SMEs to be addressed:

- Orientation allows the desire of both family and business for clarity of purpose, values, and mental perspectives to be met and reconciled.
- Observation addresses the need, in complex and changing environments, for SME family businesses to be opportunity-focused.
- The processes within the decision and action components of the OODA loop allows necessary action to be taken with both speed and agility.

IN CONCLUSION, we suggest that the six guiding principles listed below might usefully form a framework for SME family businesses to develop entrepreneurial strategy:

1. As part of their overall strategic imperative, family-owned businesses should aim to be sustainable across generations.
2. To thrive across generations, they need to be skilled in identifying entrepreneurial opportunities.
3. They must develop a strategic capability to ensure that identified entrepreneurial opportunities lead to competitive advantage.
4. Given the inherent uncertainty and complexity of today’s business environment, quick decision-making and fast reaction time can be a critical part of building competitive advantage.
5. Strategic frameworks that encourage faster, more effective decision-making should be valued.
6. OODA is a strategic decision-making and action-oriented framework able to facilitate fast, effective decisions that align with the dominant logic, maintain family values and are sustainable across generations.

KEY TAKE-OUTS

- Family firms urgently need to develop and retain strategic processes, capabilities and orientations that are entrepreneurial in nature.
- The OODA framework enables faster, more effective decisions within an entrepreneurial strategic framework.
- Acting entrepreneurially is not about sporadic engagement; it must be a regular and systematic part of a firm’s behaviour.
Get a return on ambition

**Get Business Ready**
Three professional masters programmes for recent graduates

**Get Performance Ready**
Executive Education for individuals, teams and organisations

**Get Leadership Ready**
Part-time pathways to MBA qualification

[Website URL] gsm.auckland.ac.nz