Conclusions: Researching Family Business Groups: Lessons Learned and Avenues for Further Research

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Researching family business groups: lessons learned and avenues for further research

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People who start and manage multiple businesses are common worldwide. Similarly, most large companies of national or global significance are business groups of legally independent firms rather than organized as a single organization. This constitutes a paradox that has preoccupied business researchers for several decades. Why do business groups exist and persist when focusing on just one business is apparently so much easier?

That large family businesses are also commonly organized as business groups has only recently been realized. For the last two decades, there has been a slow but steady increase in researchers focusing on family business groups and their differences from non-family groups. Particular research has focused on how pyramid family business groups help controlling families leverage capital from the shareholders of affiliates to fund growth where external capital and equity is not freely available or desirable. There has been little research beyond this exploration of the complexities of ownership and family management and how they relate to differing business group organizational forms.

The emergence of business groups had not received much attention from those researching large-scale business groups, as many business groups start as small-scale entrepreneur-led or family business groups. This reflects a widespread, but mistaken, impression that (a) business groups are uncommon and of an insignificant size in the small-firms sector, and (b) if they do exist, they are likely to be mechanisms to aid survivalist goals, not growth. The emergence of entrepreneurship as an important business discipline in the 1980s, which concentrated on new venture creation and small firms, saw new interest being paid to multiple business ownership by small-scale entrepreneurs. It was realized that a significant minority of small-scale entrepreneurs have developed small portfolios of businesses, and the term ‘portfolio entrepreneur’ was coined to differentiate them from mono-entrepreneurs or ‘serial’ entrepreneurs who started and closed a series of businesses without building a group. Research established that while diversification could be survivalist for many small-business entrepreneurs, for others it could be a positive process of entrepreneurial growth and capital and wealth accumulation. The growth of this literature has been overlooked by large business group researchers, but at the same time, entrepreneurship researchers have also tended to regard portfolio entrepreneurship as mainly a small-firm phenomenon and to avoid engaging in the wider business group community of researchers.

During the last two decades, there has also been a renaissance of interest in family businesses. Family business researchers have concentrated on larger businesses and have tended to view them as single businesses rather than as a business group. They have been preoccupied more with unravelling the relationship between family and overall business performance and transgenerational issues such as succession, rather than on how the family affects the emergence and development of a business group organizational format. In particular, the development of research on transgenerational entrepreneurship in family firms has been preoccupied with identifying unique pools of family resources and how they affect short-term and long-term performance and continuity. Their relation to and implications for family businesses group emergence and development are yet to be explored.

In this book, we have attempted to bridge these parallel theoretical traditions. Our contributions lie at the interface and overlap entrepreneurship research on portfolio entrepreneurship, family business research and business group research. In taking a holistic approach for the first time, the book examines family business groups and portfolio entrepreneurship at all scales of size, from large groups spanning several generations to small micro proto-groups formed by small-scale micro-entrepreneurs.

The book’s themes are all research areas that have only been partially researched before. The chapters on theory demonstrated that although there is an increasingly sophisticated and constantly developing theoretical literature on business groups, entrepreneurship and family business, applying and integrating these theories to researching family business groups specifically is still at the pioneering stage. One reason for this, as discussed in depth in the chapter on methods, may be the fact that family business groups and portfolio entrepreneurship are phenomena that are difficult to research and gather relevant rigorous data to research them in any depth. The contribution of this chapter is to identify and clarify the methodological challenges faced by researchers. There has been some progress in developing new methods to meet these challenges, but these are mostly at an early stage.

Four of the chapters shed insights through the analysis of detailed cases on the theme of how business groups emerge through portfolio entrepreneurship. We believe this is the first time that such a focus has been attempted in any depth. Three of the chapters (Rautiainen and Pihkala; Iacobucci and Rosa; and Akhter and Ning) examined how business groups have emerged in a large-scale, medium-scale, and small/micro-scale context. There is also a progression of scale and complexity, from relatively basic and simple groups to highly complex and messy groups with many businesses and covering a diversity of industrial sectors, with a diversity of ownership and a diverse balance between production and investment roles. The managerial challenges faced by the families in each, from micro- to large-scale are fundamentally different, yet Rosa suggested there is an identifiable common process in the way portfolios are developed into more substantial business groups. He put forward the idea of the entrepreneurial career ladder, which demonstrates how capital accumulation (financial, social and human) can be achieved gradually from small beginnings through starting a cumulative series of businesses, a process that allows the exploitation of larger-scale business opportunities as capital increases.

The third theme, 'understanding the complexities of family business groups', examined in more detail how family factors influence the dynamics and complexity of these groups. In the management and organization research on business groups, there has been little attempt to explore and account for the complexity of some large-scale transgenerational family business groups. The business groups they tend to research tend to be well-organized and logical business groups, particularly M-Forms or H-Forms, where affiliates centre neatly around a central parent or holding company. Hence, they have not tended to encounter the kind of 'messy' and more open groups to be found in some family businesses. In the most complex groups, there may be several separate business groups loosely coexisting with each other, and supplemented by other companies hardly linked to production activities. How to account for and analyse this complexity is taken further by Mukherjee, Rautiainen, Pihkala and Rosa in their paper. They demonstrate that the creation, acquisition and divestment of multiple businesses by one or a team of family entrepreneurs translates into increased complexity in terms of governance, ownership and management over time. This attempt includes a challenge: there is no theory development specifically focused on analysing and understanding complex family business groups. In their paper, they explored the potential of theorizing family business groups as complex adaptive systems. They draw on theories of complex adaptive systems to propose that family business groups are the outcome of complex temporal dynamic interactions within and between family business subsystems. Their paper is one of the first attempts to bring to our attention how complex some family business groups can be and to apply complex adaptive theory to analyse it.

The remaining papers in this theme each discusses a specific aspect of family and business which has attracted previous research in the family business field, but whose implications have yet to be understood in terms of their contribution to business group complexity and development. As indicated in the introduction, there has been considerable interest and research on transgenerational entrepreneurship since the early 2000s. This has followed two strands. The first strand are studies taking a resource-based view to research how formal and informal resource pools influence the survivability and performance of transgenerational business families. The second strand is to draw on strategic theories of corporate entrepreneurship that which advocate that performance and continuity are enhanced by family leaders taking a long-term entrepreneurial strategic orientation that is transmitted to the next generation.

Insights were shed on these issues by Parada, Basco, Discua-Cruz, Fitz-Koch and Akhter, who examined the development of business groups from a transgenerational perspective through the case analysis of a Spanish business family. They demonstrated that transgenerational entrepreneurship, when present, leads to complex processes of family business group realignments and expansion. It is likely with the increasing pace of change in the business environment that new-generation family members will find it less worthwhile to replicate and renew their parent's businesses and will seek new opportunities through starting fresh diversifications and spawning a new energized business group, which will eventually supersede the old. In such circumstances, the accumulated resource pools and entrepreneurial orientation will enable them to establish sizeable new ventures. In addition, Parada et al. suggest that family businesses may evolve into a business group when family complexity increases dealing to the creation of complex ownership structures along with diversification into new areas of interest as the market and the context changes. This chapter also highlights the formation and dynamic development of such business groups.

One area where there is a fundamental difference between corporate and family business groups is ownership. The implications of family ownership on business group dynamics is perhaps the most complex and least researched aspect of family business group research. Pihkala, Goel, Rautiainen, Mukherjee and Ikävalko’s contribution lies mainly in clarifying how ownership relates to family business groups in three areas. First, their paper unpacks the multidimensional nature of family ownership, how different forms of ownership generate different kinds of benefits for owners. The family business group, they suggested, result from two choices: their owners’ choice of increasing their ownership positions beyond a single business, and their owners’ choice of not integrating the acquired businesses into a single ownership position. The former leads to a multiplication of businesses and the enlargement of the group and its complexity over time, as new businesses are started, acquired and divested, with different family and non-family ownership combinations. The latter confronts the family with managerial challenges on how best to manage the group as it expands, or how to manage its consolidation when it becomes too large and unwieldy. The authors point out that there is a range of challenges that a family faces when family owners seek to maintain balance in complex family business groups.

How to manage a diversified family business group becomes an important challenge for entrepreneurs and families. Goel, Ikäheimonen and Rautiainen’s paper emphasizes that unlike a non-family business group, the optimization of management of the group is not related only to production and profit maximization. The expansion of family members over time, operating at multiple levels within the group, and with multiple roles, differing goals and ownership stakes, makes it imperative for families to develop systems to control conflicting family interests and agendas. This is in addition to finding managerial governance systems to organize and coordinate production businesses within the group. These are likely to multiply further in entrepreneurial families, which are consistently and dynamically adding new ventures to the portfolio. In providing an overview of key issues of the interaction of business and family governance within family business groups, these authors have helped clarify a basis for a focused agenda of further research on the governance of family business groups.

Throughout the book, the range of articles has examined family business groups and portfolio entrepreneurship from a number of general contexts, such as large-scale, small- and medium-scale and micro-scale, and developed and developing countries. We emphasize the importance of researching family business groups in a range of contexts. This applies not only to general contexts, but also to local contexts, as was demonstrated by the last theme of the book. In many developed countries, innovation forms an essential ingredient of long-term competitiveness, and this applies to local businesses, not just to international Internet-based firms. Konsti-Laakso, Heikkilä, Rautiainen, Rinkinen and Akhter drew attention to the fact that the role of family business groups on the regional innovation environment remains unexplored territory. Although there has been some research on how family businesses interact with the innovation business environment, their case study of how family business groups in the Lahti region of Finland is one of the first to examine this issue specifically from the point of view of business groups. In such environments, a business group structure enables family entrepreneurs to access patents and acquire new technologies by permitting shared ownership with outsiders without compromising overall ownership. The paper has established that gaining a fuller understanding of how a business group structure operates and interacts with an innovative local business environment is an interesting and important area for further research.

Many areas of the emerging and developing world, in contrast, produce business environments that are unstable and full of uncertainty. In these environments, resilience and the ability to manage risk and uncertainty become paramount if entrepreneurs and families are to sustain and grow their businesses. Discua Cruz, Basco, Parada, Malfense-Fierro and Alvarado examined the relationship between resilience and the advantages of a business group structure in four regional contexts, Venezuela, Honduras, Saudi Arabia and Malawi. This paper again has helped to broaden the research agenda for portfolio entrepreneurship and family business group researchers. The contribution from this highlight that whilst the emergence and development of family business groups may be strongly influenced by contextual issues, it is the family factor which strongly determines the resilience of families to remain in business, shaping their business portfolio to adapt and survive over time.

The family business literature has consistently stressed that the role of family values, identity, life goals, interpersonal family relationships and emotions are important factors in determining how a family business is developed and managed. These cross cut and influence rational business decisions. One context where the interplay of such soft factors, with environmental business realities and pressures, is the farming sector in Europe. Fitz-Koch, Cooper and Discua Cruz demonstrated in their contribution that business pressures in an increasingly difficult farming environment have decreased income from farming and have forced many small- and medium-scale farming families to engage in new and diversified business strategies to ensure new sources of earnings and transgenerational continuity. The rational alternative is to seek new opportunities outside farming, but many farming families are motivated to remain in farming out of a sense of identity with the rural lifestyle and long traditions of farm occupancy and ownership. The authors applied identity theory into studying the dynamics of family farming diversification in a diversified local Swedish family. It has broken new ground by demonstrating how farming family firms are inextricably intertwined with family identity, and thus complex patterns of portfolio growth emerge driven by family dynamics.

Limitations and further research

It is important to emphasize that researching the interface between portfolio entrepreneurship, family businesses, and business groups is at a pioneering stage. Thus in this book, we have sought to add a new dimension to the overall research agenda on business groups, family business and entrepreneurship by illustrating the potential and possibilities of adopting this focus. Each chapter has highlighted an agenda in its own right for further research, but there are many further areas relevant to our understanding on the unique characteristics and complexities of family business groups in different contexts. There is in particular great scope for adopting a range of currently unexplored theoretical perspectives. An example of this is applying more sophisticated complexity and evolutionary theories to researching family business groups. Another example is how to draw upon the resource-based view and entrepreneurship theory to provide a better development model to explain the evolutionary entrepreneurial processes, which we termed ‘the entrepreneurial ladder’. At the same time, we highlighted the need to meet the challenges of developing better ways of collecting rigorous quantitative and qualitative data on family business portfolios and to enable researchers to apply longitudinal approaches that are meaningful but also cost-effective.

There are several opportunities to further family business group research from this book. A particular aspect relates to the contextual issues that families who develop business groups over time face in developing a business portfolio. Research around how family business groups face critical challenges in certain contexts such as corruption, sudden institutional voids or deteriorating contextual frameworks remains scarce. Chapters in this book provide a starting point to investigate the mechanisms that families in business use to overcome such challenges, yet our compilation revealed that such an approach may be more complex than originally believed and thus deserves further attention. Further studies may rely and extend theories presented in this book and suggest how they complement other perspectives.

Our book has demonstrated the prevalence and advantages of family business group structures and strategies at all levels of business. Yet the business support environment is not aware of its importance, and many business families are not consciously aware of how unique and distinctive their portfolio-based strategies are. We lack an understanding of what makes successful portfolio systems in business families successful in various contexts. Until this understanding develops further, we will be unable to recommend best practices for the business support environment to adapt and pass on to a new generation of business families.