The Emergence of a Family Business Group: The Role of Portfolio Entrepreneurship

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This is a Final draft version of a publication

published by Palgrave Macmillan, Cham

in The Family Business Group Phenomenon

DOI: 10.1007/978-3-319-98542-8_4

Please cite the publication as follows:

Rautiainen M., Pihkala T. (2019) The Emergence of a Family Business Group: The Role of Portfolio Entrepreneurship. In: Rautiainen M., Rosa P., Pihkala T., Parada M., Cruz A. (eds) The Family Business Group Phenomenon. Palgrave Macmillan, Cham

The emergence of a family business group: The role of portfolio entrepreneurship

Marita Rautiainen and Timo Pihkala

Introduction

There is a vast literature about business groups (Carney and Gedajlovich, 2000; Khanna and Palepu, 2000; Khanna, and Rivkin, 2006; Yiu, 2010; Carney et al., 2011) and it has been found that diversified business groups dominate the private sectors of most of the world's economies (Leff, 1978; Belenzon et al., 2013). "*Why do business groups exist?*" is a question raised by Granovetter (1995) while criticizing the ways in which previous observers have dealt with business groups. While they are common in all economies, undeveloped, developing and developed, and their role is unchallenged, much of the research has led to the subject being misunderstood and understudied and in urgent need of empirical and theoretical exploration (Smångs, 2006). This is mainly because of a problem to determine the way in which a number of businesses are linked together and in what sense they are defined to belong to certain group. Because of the definitional problems/challenges there are plenty of firms whose status as business groups is arguable and one of the reasons for their ignorance in economic theories is that as the businesses in a business group are legally separated, business groups can be invisible (Granovetter, 2010). From the point of view of business group literature, the loose and incoherent social structure typical for family business groups seems merely as an intermediate step in the course toward the organized corporations. However, these structures seem to be rather stable and persist the needs of the business as well the needs of the environment. For example, in emerging economies, most business groups are family run, and these family owned groups seem to prevail for generations. (Khanna and Palepu, 2000; Khanna and Yafeh, 2007).

Entrepreneurship can involve the founding of new, independent firms, as well as the ownership and development of purchased and inherited independent businesses (Ucbasaran et al., 2001). Portfolio entrepreneurship – that is, the simultaneous ownership of several businesses – is an important theme in small business research and been discussed in entrepreneurship studies (Zellweger et al., 2011; Iacobucci and Rosa, 2010). Portfolio entrepreneurship can be defined as a mode of operation in which the entrepreneur founds, owns, manages, and controls, instead of one company, several companies at the same time. Portfolio entrepreneurship research is usually stressed in terms of the individual, and recent studies often highlight entrepreneurial activity undertaken by teams of people (Cruz et al., 2008). Portfolio entrepreneurship is originally viewed as a means of reducing business risk, the ownership of multiple businesses by a single entrepreneur is now recognized as an important growth strategy. The role of portfolio entrepreneurship and the complication of several companies and ownership illustrate that entrepreneurship is still very important even in the latter state.

According to earlier research, it seems rather common that family entrepreneurs own several firms and run several businesses simultaneously (Masulis et al., 2011; Zellweger et al., 2011; Piana et al., 2012; Huovinen et al., 2008; Rautiainen, 2012). In this paper we suggest that the co-existence of the incoherence and the longevity of family business groups can be understood as a result of the development path through which they are created and the special characteristics of the family business. We contend that business groups emerge from portfolio entrepreneurship and analyze the emergence of the family business group with three specific viewpoints: First, we highlight the process, how an entrepreneur starts developing a business portfolio. Second, we show how the entrepreneurial business portfolio evolves into a family business group. Third, we show how the family manages the family business group simultaneously growing it and securing the wealth.

The ever-increasing complexity of family business groups has made them extremely difficult to study. Furthermore, the elusiveness of such complex structures can hinder our ability to communicate the results of the research, and often unwarranted, reliance on the veracity of our study and the relevance of family business group is questioned. Case studies represent an important research method for generating and testing theory so qualitative empirical inquiry within a real-life context, where the boundaries between phenomenon and context are not clear (Yin, 1984), is no doubt the best way to study a complex phenomenon i.e. the birth and development of family business groups. Case studies offer the opportunity for a holistic view of a process as opposed to a reductionist-fragmented view that is so often preferred. Rather than assuming a world of simplicity and uniformity, those who adopt the qualitative approach of case studies generally picture a world of complexity and plurality (Orum et al., 1991).

Business group emergence through portfolio entrepreneurship – a Case study

The case presented in this paper shows an example of business group emergence. In this presentation, the focus is on the development process of an entrepreneurial business portfolio. The central character, the entrepreneur, started building the group at a very early state after becoming an entrepreneur. During his career, he has made several business start-ups, company takeovers, joint ventures, business investments, company divisions, and company closures and developed an impressive group of companies before the next generation continued the business.

Portfolio entrepreneur

The entrepreneur started his business career in 1965 with the background of commercial training. The emergence of the entrepreneur's business portfolio began with the company called Teräspeikko (i.e. steel troll in English) and was established based on a metal structure innovation that was a pioneer in its field. At the beginning, it was a one man’s welding shop and the ownership of the company was organized as a partnership together with two other partners. While the business developed, the entrepreneur became the main owner of the company as he bought other partners out and moved to Ltd. form in 1974. At this stage, the entrepreneurial path seems rather conventional. However, the entrepreneur was good at identifying different business opportunities. The entrepreneur explains his motivation to build a portfolio with personal tendency to get excited about new things and the willingness to manage risks:

> *"I have always been very easily enthusiastic - it does not cost very much to get excited about different things. But behind it there is always a vision, learned or experienced - and it must feel good”* (Entrepreneur).
>
> *“Why so many different companies? It is a question of daring – to put a limited amount of resources into an interesting system - it should not swing the financial position and in a way, it is minimization of risks”* (Entrepreneur).

The entrepreneurial model for diversification

The business grew rapidly into a diversified portfolio of several companies but there was no systematic strategy for building a group of companies. Instead, the entrepreneur explains that he had two conditions for diversification: 1) the products and solutions must deal with introducing new specialized tools for something that have earlier been solved with old-fashioned ways and 2) the line of business was somehow badly organized or outdated and needed restructuring. All the companies in the portfolio were distinct from each other and the only links between them were the entrepreneur and money. In other words, all the companies were legally independent and had their own board and management structures.

> *"I shared resources, each company had its own managing director and only financial management was common through me. If the business was successful it was developed further, if not, it was discontinued"* (Entrepreneur).

As the model for diversification was opportunity driven, some of the businesses turned out to be failures. One example was a joint venture 'Kynsi Ltd.' that produced winter tire spikes for cars. According to the entrepreneur, this was a big *fiasco*. Three engineers from the other company had developed the innovation and asked the entrepreneur to join to this new business. Unfortunately, the product testing was poorly done.

> *"I wasted one year to this. It was a bad product and almost drove the entire company into bankruptcy. Fortunately, I had Teräspeikko that always produced a good result"* (Entrepreneur).

Managing the failure, the entrepreneur bought other two owners out and saved the company from bankruptcy by shifting resources from Teräspeikko to Kynsi. He retained this company for possible later use. Another unlucky example was Nostera Ltd. that manufactured barber chairs by combining two already existing innovations. The entrepreneur thought that this would be a good product and would reach new customers in a new business field.

"A great chair, but it was too expensive for a regular hairdresser! The innovation went down due to the fact that the product was too expensive – fortunately this company was sold later to Belgium" (Entrepreneur).

Ventipress Ltd. was another failure. The company manufactured inflammation in the treatment of the leg ulcer. The innovation was brilliant but the business suffered from the same problems as Nostera Ltd.

"*There was a problem with the fact that customers are old, from hospital point of view non-customers, so the device was too expensive. A good lesson for an entrepreneur"* (Entrepreneur).

Although there were some setbacks, they were minor issues as well as good lessons to the entrepreneur. The ability to deal with the setbacks without damaging other businesses in the portfolio was a sound proof of the resilience of the portfolio structure. The portfolio structure enabled constant rearrangements between the companies. The entrepreneur conducted interesting business arrangements between companies Makron and Teräspeikko. Earlier established Kynsi Ltd. was in a standing state, and was renamed to Makron Ltd. The machinery department from Teräspeikko was moved to Makron. The purpose of Makron was first a sales company by selling Teräspeikko machinery and then later it started assembling large machines made from components manufactured by Teräspeikko.

"The reason why we established Makron was to ensure business development. We built large machines in narrow fields where only we had the best know how" (Entrepreneur).

Makron focused on the construction of large machines for various industries where production was still largely handcrafts. Introducing manufacturing innovations in these industries proved to be a successful strategy. In some point Makron began to grow and needed more resources as well as professional management structures. To solve the resource problem, the entrepreneur had to reorganize the ownership structures between the companies. Ownership was turned around between these two companies (Makron and Teräspeikko) by making new cross ownership arrangement. At the same time with this arrangement, few non-family owners were bought out from Teräspeikko. Now Makron, which needed funding, was able to use all of its income through depreciation. At the same time, a new partner Stala Ltd. - external of the family - was brought into partial ownership to Makron.

"The exchange of shares was an operational solution - managing entrepreneur's wealth, the tax consequences (wealth tax) were very high in the entrepreneur's personal taxation until 1985. The administration was also differentiated; separation was made between the management and ownership" (Entrepreneur).

One of the reason for cross ownership between companies Stala and Makron was enhancing the governance, they formed an interlocking directorate, taking part on each other's boards of directors. In the late 80's just before the great recession, a significant innovation dealing with metal structures for the construction industry was born. This innovation has been a major foundation for the company's current success. Again, a new group of companies was formed around this innovation.

"It was a business risk, a huge risk, and no one had any money. Besides this, product was completed just before the worst recession" (Entrepreneur).

Another two new companies were set up, Makrorakenne Ltd. managed the construction of the factory and Deltatek Ltd. acted as a sales company of the new product. The investment reserves of the existing company were transferred to the new companies that benefitted from them in full. Along with the managing the changing levels of success of the companies within the portfolio, the companies became interdependent in cases where companies supported each other or needed support.

Managing the growing portfolio, the entrepreneur created delicate settings of businesses to meet his goals in innovation, ownership and financing. A good example of this is a triangle of companies Pexep, Proplast, and Propex.

"The various functions were divided between the companies i.e. Pexep worked as a production company using patents owned by Propex. Both companies operated in the premises owned by Proplast that again was owned by Teräspeikko. The reason for this arrangement was the division of ownership of the different companies. The ownership in Propex was shared between two other partners, as these were the partners who developed the innovation. The sales in Pexep developed well and in some point the entrepreneur increased his ownership of Pexep to 80 %. Again, part of the ownership was channeled through Teräspeikko. In 1994, all three companies were sold out which enabled the creation of new company. A real estate company Ekokapitaali was set up and first it was a joint venture together with a family friend." (Entrepreneur)

Ekokapitaali was one of the first companies in the group related to retaining wealth. The company was further split in 2005 when part of the resources were transferred to the founder´s new real estate company Mecatechno Ltd. and the rest was sold to a family friend who now totally owns Ekokapitaali.

"This was a kind of a hobby business and separate from the main business" (Entrepreneur).

Mecatechno was first set up in 1994 to manage a controlled bankruptcy of the company Fickert & Winterlind that was owned by Makron. As Fickert & Winterlind was close to bankruptcy and it had claims from Makron, funds were transferred from Makron to Mecatechno for security reasons, as Makron was a valuable company for other businesses. After the controlled bankruptcy, Mecatechno was put in stand-by-mode.

> *"It was a risky loan for the development of a new business as a "secret system" only recorded in the protocols. This loan cannot be distrained because it is given to another company"* (Entrepreneur).

During these years, several successful companies were established and the portfolio included both joint ventures, where the ownership was shared with other business partners and companies where the ownership was channeled through Teräspeikko and the entrepreneur. Most of the companies in the portfolio based on innovation either on a single product innovation or on combining two new modes of operation. During his career, the entrepreneur has been involved with 50 different innovations and he describes himself as a "very typical adventurer". By the year 2005, the amount of different companies in the portfolio was over thirty. One of the biggest success in the group was the Eimo Ltd., which grew rapidly being one of the biggest company in its industry and was publicly listed.

The emergence of a family business

Business has always been present in the entrepreneur´s home as the businesses were conducted first from the entrepreneur´s home kitchen table. Already at the beginning of different business operations, the family was linked to different businesses, the entrepreneur has three children and they have always been involved when customers were visiting the entrepreneur's home.

"Business has always sat at our kitchen table, like the sixth family member... and often we had a customer at our table also" (Entrepreneur).

The family valued education highly and all the three children were sent abroad as exchange students as well as everyone studied at the university, it was also important to acquire work experience outside the family business. At some point, it was time to look at companies' future and start discussions of succession. For the entrepreneur it was essential to understand who could be the suitable successor. The family was aware of the fact that someone brought from outside would not take the risks that a family entrepreneur would take. The differences between the two brothers were clearly defined.

"Personally I saw that our oldest son is not suitable to be a business manager, although he managed one of the family companies very well for two years. Still he is more interested about financial issues instead of company management; he doesn't see the business opportunities" (Entrepreneur).

"Our younger son has a totally different kind of nature, he was working in Plc. and when it was sold I sat down with the family and said that I am too old for this and I think that he is the best person to continue our family business" (Entrepreneur)

By 2005, the entrepreneur had a large business portfolio consisting of different companies, some of which were more significant than others. The entrepreneur saw that the younger son would have the ability to internationalize Peikko. The other son focused on running family's investment companies and the daughter followed a career outside family business. After dividing the responsibilities regarding the different businesses, the entrepreneur's younger son started to manage company Peikko as a single company separated from other business activities.

"When he started at Peikko 2005, our direction didn´t change whereas the pace of development did. When the owner is involved in the daily business we can go faster" (older brother).

The group evolved further through the founder´s business arrangements. The structure of the group was in constant move as the founder established separate corporate groups for the sons to manage. The business group and the companies in the group were restructured several times based on three different objectives.

"Business transfers were guided by questions which industry the capital should be targeted, how to avoid taxes, and how to handle family business succession. These three things affected the reason why companies were moved around so much" (Founder).

During the past twenty years, a number of different investment companies were also created within the group. This offered the family ability to act as a venture capitalist. Although the founder no longer sits in the company boards of the family business group, he is actively involved in creating new businesses through four different joint ventures. These companies are new start-ups based on innovations.

Balancing Entrepreneurship and Wealth Retaining

Before the family business succession, the entrepreneur's business group consisted of 20 separate companies. Each of them were legally independent and administered as separate organizations apart from other companies. The founder was the chair of the board in each company. It was a "messy" structure and while it was time for the next generation to take the lead, they had to dismantle the structure and decide what to keep, close or sell it out from the group.

One company in the portfolio had been particularly important to the family. In the year 1985, the founder had bought a plastic press factory from his friend. At the beginning, the development of this company took a lot of money and faith but the founder did not give up. Mobile business was arising and within 18 years, the company grew exponentially from small to be the most important in the group. Although this company was a big part of the founder´s life work, no deep feelings were associated with it. The contradiction is obvious, while being 40 years in business and talking about the importance of domestic family ownership, business instincts forced to sell this business.

"I would do the same thing now if I had to; in this business we were too small with the limited knowledge" (Founder).

At the present stage, the family business group operates with a rather complex structure and is managed by the second generation. The founder is still involved with several businesses both within the family business group and in other non-family businesses. Second generation, the three siblings, are now managing the family business group.

The younger son was particularly interested about entrepreneurship. He had worked at Peikko since 2005 and has previously held the positions of Chairman of the Board of Directors and Director, International Operations. Before joining Peikko, he worked in the family-owned mobile phone component business and decorative coatings business (non-family owned). Through the intimate knowledge of the business, he saw lot of potential in the company. Since 2010, he has been operating as the CEO of the fast growing Peikko Group, that has grown into a corporation. He has also a separate investment company for retaining wealth. His brother runs the family investment companies with their sister, who is also starting her own business after many years of teaching career. At the present stage, the third generation members are also involved to business through ownership succession.

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Discussion of the case study

The case study raises a set of issues to discussion. The issues deal with the building of the business portfolio, the introduction of the family in the business, the creation of the family business group out of the entrepreneurial business portfolio, and the organization of the family business group.

Building the portfolio

The case shows that there is a tight relationship between the type of entrepreneur and the behavior patterns of the firms created. In general, an entrepreneur is regarded as someone who has the ability to successfully create a new business venture. Approaches to portfolio ownership can be seen as a strategy for family survival, through the introduction of alternative income sources (Carter and Ram, 2003), as well as a structural regulator to accommodate to business succession (Ram, 1994;

Mullholland, 1997). In our case, the entrepreneur explains his behavior as a set of curiosity, excitement, adventure, and risk management. The case entrepreneur operates largely as a free agent, following different opportunities emerging in the business environment and thereby collecting a diversified egocentric business portfolio around him. Doing this, he followed his personal rules of thumb with which he selected his target businesses. It seems, that the need to secure the family income or preparing for the succession are not present in the early stages of portfolio entrepreneurship. However, in later stages the entrepreneurial portfolio forms the basis on which the family business succession was built.

Definitions of portfolio entrepreneurship and portfolio businesses come primarily from finance, where portfolios have been one strategy for reducing business risks, as indicated in the following definition of the concept:

> *"A group of assets. For individuals, a portfolio might include stocks, bonds, rental real estate, bank accounts, and collectibles. For businesses, a portfolio is all of the assets included on the firm's balance sheet. For example, a real estate trust holds a portfolio of office rental properties (also called investment portfolio)." The American Heritage Dictionary of Business Terms, 2010*

Portfolio entrepreneurship can be defined as a mode of operation in which the entrepreneur founds, owns, manages, and controls several companies at the same time. Although originally viewed as a means of reducing business risk, multiple businesses owned by a single entrepreneur is recognized also as an important growth strategy (Carter, 1998; Carter and Ram, 2003). In the present case, the characteristics of portfolio entrepreneurship are well presented. The entrepreneur is opportunity driven and at the same time, seeks to balance growth with risk – thereby entering new businesses that stay legally unrelated to each other. The case entrepreneur operates actively as an owner of businesses, being active in guiding the operational managers in the businesses, controlling each of the businesses separately, and making sure that the agency costs due to the separation of ownership and management would not rise too high.

Entrepreneurship can involve the founding of new, independent firms, as well as the ownership and development of purchased and inherited independent businesses (Ucbasaran et al., 2001). In our case, it seems that the entrepreneur is highly skillful in managing and organizing the emerging business portfolio, and thereby he is able to derive new resources from the portfolio to be allocated to the new ventures. As such, the entrepreneur succeeded in creating an internal financing mechanism in the portfolio. At the same time, the loose legal structure of the portfolio worked as a mechanism to manage risk in case some of the businesses should fail. In these cases, the entrepreneur seemed to take close control of the failing businesses, transfer valuable resources to other businesses and end the failing business. However, he retained the legal company for possible later uses. From the resource-based perspective, this pattern suggests the good businesses sacrificing their business performance because of using resources for a weak business. On the other hand, on the portfolio level of analysis, the pattern makes sense. This pattern shows the entrepreneur's deep interest of making use of the portfolio structure. Having the ready set of legal companies at hand formed a resource for emerging opportunities.

While successful, the large collection of diversified businesses with their interdependent financial relationships formed a complex system that was difficult to understand without the first-hand experience. These difficulties seemed evident as the family involvement started to grow in the business. Portfolio entrepreneurship seems to be a decisive element of the emergence of the family business group. At that time, the tasks of entrepreneurship, ownership and active management of the business portfolio proved to be too big a challenge for the next generation. Thus, a new organization of the portfolio was needed and the emergence of the family business group started. The family group grew out of the entrepreneurial business portfolio through the introduction of family members' objectives, the new ownership structure, and the organized model for balancing growth and wealth retaining.

The characteristics of family business entrepreneurship and business group

Throughout the years, a lot of attention has been devoted to the family business succession (Handler, 1989; Kets de Vries, 1993; Sharma et al., 2001; Brockhaus, 2004; Bennedsen et al., 2007) which no doubt is one of the key issues in the development of family business. However - more significant is the issue of the transgenerational continuity of family entrepreneurship, particularly how family dynamics affect the family members' entrepreneurial processes (Aldrich and Cliff, 2003). Entrepreneurship involves the recognition of business opportunities with the emergence of new business entities. The perspective on the opportunity recognition and new venture creation focuses often on the traits and dispositions of founders (Aldrich and Wiedenmayer, 1993) and the stories of family business founders are typically entrepreneurial stories (Hnátek, 2015). However - the family business founder is deeply entangled in social relationships with other family members. Changes in family life (i.e. marriage, divorce, and children) have implications for opportunity emergence and recognition as well as have mixed effects on the new venture creation process (Aldrich and Cliff, 2003). In the present case, it is evident that the business portfolio was changed dramatically to enable the forthcoming family business succession. This involved the decision making about the successors, the simplification of the business portfolio, the division of tasks within the family business group, and the decisions about the mechanisms for retaining family wealth.

Becoming an entrepreneur is not necessarily an inherent trait. From the perspective of economic development, i.e. growth and job creation, growth oriented entrepreneurs are highly valued (Getz and Petersen, 2005). Entrepreneurial family member may have the goal for growth, which in turn can be directly in conflict with the desire for wealth accumulation by the other family member (Hoy and Verser, 1994). This may affect the efficient use of internal funding resources for growth among the family business group. Acquiring company growth is important for the retaining of family wealth. When the family grows, inherited wealth will be shared with several owners. The diversity of personal goals makes it unlikely that there can be consensus and common commitment to business development. The lack of entrepreneurial drive in family businesses may be due to the non-economic goals and certain lifestyle expectations. In our case, it seems that the personal interests and motives worked as an important driver for shaping the business group structure. Thus, the structure was formed according to family member logics instead of business strategy. In that sense, the family business character is well visible in the case group.

Successful family businesses are generating prosperity through generations, i.e. transgenerational wealth (Habbershon and Pistrui, 2002) which embodies to family ownership groups and their involvement in the development of entrepreneurial change to keep creating value to the firm. Curran et al. (1991) studied individuals whose parents were owners of small firms and noticed that they tended to assume their parents' role and become business owners. Cruz et al. (2008) found that succession focuses on keeping the family in the business through the development of a portfolio business. For family-owned businesses, a key element of the dynamics of the portfolio is likely to derive from the resources immediately available to the family (Carter, Ram, and Dimitratos, 2003). In the present case, making use of the constantly available resources accumulated in the group is one of the determining factors of the family business group. In that sense, it provided the family members good opportunities to assume the role of entrepreneurs. However, it seems that they do not need to undertake the portfolio entrepreneurship pattern but rather they operate from within the business group.

The complex group structure organized according to the family members

Family business research is often assuming that family businesses tend to be stagnated and they cannot grow beyond a certain size (Ward, 1997; Yeung, 2004). This assumption suggests that the resource base of the family would be merely restricted to the capabilities of the entrepreneur. The present case is a good example of the multitude and variance of the motivations and goals of family business owners. Similarly, the family seems rather resourceful in its way to organize the family business group for the forthcoming growth. However different the individual tasks are, everyone is passionate about the work.

Due to the personal touch in business, family business groups grow in many different ways and have different patterns of growth. Families provide motivation for entrepreneurship and family business to expand, but it hardly leads to certain organizational forms. Succession and inheritance pattern are an important element but does not necessarily lead to grouping strategy. The case example shows that the family business group consists of different types of interfirm relationships. On one hand a set of firms are bound merely by short-term strategic alliances and the other, a set of firms legally consolidated into a single entity. Likewise, there are firms that can be led to belong to the group through family ownership, thereby, a business group is not a fully integrated organizational structure.

The group comprises from separate elements: networks of interrelated firms, the institutionalized logic of reciprocity, and the intersubjective interpretation of actors inside and outside the group (Smångs, 2006). In early studies of business groups, Leff (1978, p 663) pointed out that the group is a multi-company firm which transacts in different markets but do it under common entrepreneurial and financial control. In our case, the family business group is highly diversified and there is no clear independent brand – instead the group consists of several brands. Only connections are the entrepreneur(s) and the family ownership.

Family business group forms large social networks of cooperating units and the identity of individual unit is less significant than the group of units where they are connected. However, to understand the ambiguities of the group structure, there is a need to examine what determines the scope of relationships in which individuals and larger social units engage (Granovetter, 2010).

Ownership is a significant factor in the formation of groups for family businesses. Several studies state (La Porta et al., 1999; Khanna and Palepu, 2000; Marman, 2002; Bertrand et al., 2008) that family involvement affects the group formation and this is particularly common in emerging and developing countries. By looking at the case, the meaning of the founder and family involvement gets an interesting perspective. The case example highlights the social networks of both the founder and the family that influence the emergence of the group. The founder set up several companies based on opportunities emerge from existing networks of ties within organization and with outsiders. Most businesses start from scratch based on which resources are available. With the development and prosperity of the company, ownership develops, and successful companies are used effectively as a resource for the emergence of new businesses. Next generation was brought into the business by setting up separate companies to handle succession processes. Historical period within which organizations are founded impact on forms (Aldrich, 2005). Family business history can affect the structure of the organization for a long time. However - in this case, the fragmentation of the business group made by the founder caused structural problems that the next generation could not solve. In addition, the differences in the entrepreneurial mindset between the next generation's members caused a situation where the existing group structure was no longer effective.

The various companies in the group represented to the next generation a different starting point for the continuity of a family business. Two of the next generation members were highly concentrated to retain family wealth whereas one member considered the growth and development of one company in the group particularly important. It was the first company by the founder in family business. The balance between retaining and growth of family business was found through complex diversification where companies were structured to production companies as well as investment companies and the ownership of them was reorganized so that it satisfied all family members. Social ties among family members have a significant impact on the business group structure. In this case, family members were able to build a unique package of resources, i.e. companies with different purpose in the group, to maintain family in business.

It is important to recognize that simple models are not likely to capture the diversity and behavior of different family firms. Particularly this is true with complex family business groups. Why does this organizational form exist in the first place? Family business group benefit from in-group-based ties and has a positive effect on survival. Based on our case example member firms operate together in a more a less coherent way. Interlocking and overlapping management as well as cross-shareholding between companies and individuals are typical mechanisms within the group. However, the causes for the existence of the individual companies in the group are manifold.

Conclusions

The case study highlights three important points to be taken into account in family business group research: first, family business groups grow out from entrepreneurial business portfolios. The portfolio pattern that the entrepreneur had created caused the starting point for the family business succession and enabled the inclusion of all children in the family business. Second, the change from a portfolio to the family business group suggests replacing the individual entrepreneur's objectives with family objectives, the organizing of the family ownership to take the family members' objectives and competences into account, and finally, systematically balancing between the entrepreneurial growth and wealth retaining within the family business. Third, even if managed in a group formation, family business groups are able to stay rather loose due to the close social bonds keeping the owners together and enabling the information exchange. That is, the groups do not necessarily assume the corporate organizational structures, nor are the individual business legally tied to each other. It seems that they do not necessarily even have a group brand but instead operate with a set of brands. In this sense, the tendency of managing risk stays in the family groups and is likely to be one of the determining characteristics of family business groups.

We need more research on how an entrepreneur seizes opportunities and makes the new venture creation decision. We need to learn more about the role of portfolio entrepreneurship in business group development and the role that family characteristics and dynamics play while identifying entrepreneurial opportunities and decide to start new companies. We need to better understand the reasons and the effects that business group formation can have on family business system. Extending the scope and paving the way for a more holistic approach to understanding of entrepreneurial phenomena in business group formation will help and broaden our perspectives. This case study gives us realistic view about new venture creation and opportunity recognition in family business group development.

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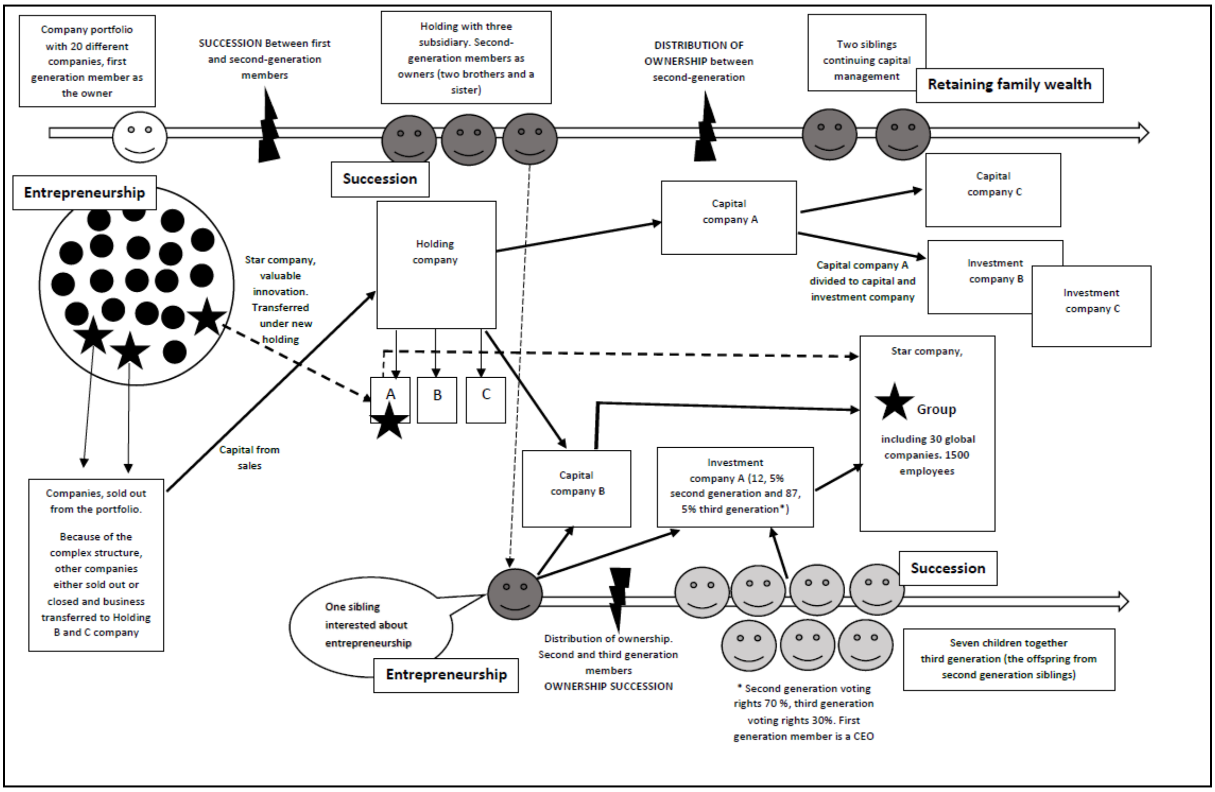
Figure 1



Company portfolio with 20 different companies, first generation member as the owner
SUCCESSION Between first and second-generation members
Holding with three subsidiary. Second-generation members as owners (two brothers and a sister)
DISTRIBUTION OF OWNERSHIP between second-generation
Two siblings continuing capital management
Retaining family wealth
Entrepreneurship
Succession
Capital company A
Capital company C
Holding company
Star company, valuable innovation. Transferred under new holding
Capital company A divided to capital and investment company
Investment company B
Investment company C
Star company,
Group
including 30 global companies. 1500 employees
A
B
C
Capital from sales
Companies, sold out from the portfolio.
Because of the complex structure, other companies either sold out or closed and business transferred to Holding B and C company
Capital company B
Investment company A (12, 5% second generation and 87, 5% third generation*)
Succession
One sibling interested about entrepreneurship
Entrepreneurship
Distribution of ownership. Second and third generation members
OWNERSHIP SUCCESSION
Seven children together third generation (the offspring from second generation siblings)
* Second generation voting rights 70 %, third generation voting rights 30%. First generation member is a CEO