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This is a Final draft version of a publication

published by Routledge

in The Routledge Companion to Asian Family Business : Governance, Succession, and Challenges in the Age of Digital Disruption

DOI:

Copyright of the original publication:

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Please cite the publication as follows:

Akhter, N., Rautiainen, M., Pihkala, T., Ikäheimonen, T. (2021). The Risk That Became True – Case Study of a Pakistani Family Business Portfolio Diversification. The Routledge Companion to Asian Family Business : Governance, Succession, and Challenges in the Age of Digital Disruption. Routledge. http://www.routledge.com/9780367359508

This is an Accepted Manuscript of a book chapter published by Routledge in The Routledge Companion to Asian Family Business : Governance, Succession, and Challenges in the Age of Digital Disruption on April 28, 2021, available online: http://www.routledge.com/9780367359508

This is a parallel published version of an original publication. This version can differ from the original published article.

THE RISK THAT BECAME TRUE – CASE STUDY OF A PAKISTANI FAMILY BUSINESS PORTFOLIO DIVERSIFICATION

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Abstract

Corporate diversification and firm performance are one of the most widely researched areas in strategy literature. However, the management and dynamics of failing family business portfolio diversification has remained largely unstudied. Responding to this gap in the body of knowledge, this chapter presents a three-generation family business case study from Pakistan by highlighting the challenges arising from unrelated diversification in a family business portfolio. The family business portfolio is multigenerational, displays a complex structure, and has shown transformation over the years. The chapter integrates three intertwined perspectives: governance, professionalisation and diversification and shows empirical evidence of the risks included in aggressive growth strategies in family business portfolios. This chapter contributes to the literature of family business portfolios by offering new information related to aggressive growth strategy introduced by the new generation of family business owners. This chapter indicates several important points in family business portfolio diversification. The main arguments of this chapter are that unrelated diversification remains a risk for family business portfolios and managing risks resulting from diversification to unrelated fields would require high managerial competencies from and high goal congruence among the owners. Also, problems with one business in the portfolio would require extensive governance mechanisms that these informally governed family business portfolios have not developed.

Introduction

This study focuses on the challenges arising from unrelated diversification in a family business portfolio. Family business portfolios have been regarded as family-owned business systems with high levels of diversity, managing separate products, markets and competencies in each of the businesses (Jaffe and Lane, 2004; Rosa and Pihkala, 2019). Rosa and Pihkala (2019) showed that family business groups can emerge as entrepreneurs add new businesses to their portfolios or they react to opportunities and threats. Diversification can be seen as a way of lowering the risks involved in the individual businesses. Khanna and Yafeh (2007), for example, noticed that diversification allows business groups to better insure themselves against the uncertainties associated with the R&D process. In this study, the initial source of unrelated diversification is family business succession. Along with a new generation of owners, a set of new ideas, competencies and sources of innovation are introduced to the family business.

In their study on the governance of family business groups, Goel, Ikäheimonen and Rautiainen (2019) emphasised the need for a fit between business and ownership structures. From this perspective, innovative diversification may not be an insurance against uncertainty but instead cause uncertainties in the whole family business portfolio. In cases of family business successions, the strong legacy and competencies developed in the family through generations may be seriously challenged when the family business engages in an aggressive growth strategy. As family business portfolios fall in between entrepreneurial owner-managed businesses and professionally managed corporations, the owners are faced with the need to introduce new methods for governing the dynamic business system (Goel et al., 2019)

Earlier research on family business portfolios has covered business exits from the perspectives of exit strategies (DeTienne & Chirico, 2013), entrepreneurial human capital (Gimeno, Folta, Cooper & Woo, 1997), and entrepreneurial family champion of continuity

(Salvato, Chirico & Sharma, 2010). These studies stress the point of managing the exit with systematic strategies, and the family owner's role as a change master, being a figurehead for unavoidable transformation. While research has covered intentional exits and the leading person's role in change processes, the unintentional failures of family business portfolios have largely remained understudied.

In this study, we focus on the unexpected outcomes of an aggressive growth strategy in a family business portfolio by looking at three intertwined perspectives: governance, professionalisation and diversification. The research question is, 'how do owners control of a diversifying family business portfolio?'

To answer the research question, we conducted a case study analysis (Yin, 2009), purposefully choosing one single case. This was a three-generation family business portfolio from Pakistan. The family business portfolio is multigenerational, displays a complex structure, and has shown transformation over the years. During the first two generations, the business portfolio has established a solid family business brand, and the business portfolio has grown to contain six businesses. The family is in full control of the businesses, one of the family members is the CEO of the businesses, and the board of directors consists of only family members. Along with the latest family business succession, problems have arisen in the management of the business system, the separate businesses and the relationships between family members. The problems are related to the new growth strategy in the family business portfolio that suggests full diversification with new products into new markets. The businesses have no existing competencies in these areas, there are no synergies from the earlier businesses, and the family lacks capabilities to operate in this context. This has resulted in a decline in the whole business portfolio and exits from four subsequent businesses.

This paper contributes to the literature of family business portfolios in two main ways: First, we offer new information related to aggressive growth strategy introduced by the new

generation of family business owners. In these situations, the family business may face a need for rapid adjustments in its governance mechanisms. The needs of the diversified family business portfolio seem to take place at multiple levels: that is, the family needs to develop its governance practices to control the family members' entrepreneurial behaviour – this would make it possible for management professionals to concentrate on their tasks. On the other hand, the new situation needs well-developed strategic management at the portfolio level, to respond to the challenge set by unrelated diversification. In a family business portfolio, where strategies have been formed through informal processes and communicated through personal relationships and legacy, this sets major challenges.

Second, we show empirical evidence of the risks included in aggressive growth strategies in family business portfolios. While the majority of research on family business portfolios have emphasised the family business portfolios' ability to use diversification to lower risks included in a single business or in R&D, our study shows that unrelated diversification remains a risk for family business portfolios as well. That is, managing risks resulting from diversification to unrelated fields would require high managerial competencies from and high goal congruence among the owners. Furthermore, as an aggressive growth strategy introducing new businesses into the old business structure would increase risks to the whole business system, the owners and management of family business portfolios need to take extra care when protecting the main portfolio from the failure of one business. Isolating the problems with one business in the portfolio would require extensive governance mechanisms that these informally governed family business portfolios have not developed.

The remaining of the chapter is structured as follows: we present the theoretical framework by highlighting the viewpoints of governance and diversification in family business portfolios. Next, we provide the details of the case study methodology we applied when carrying out the analysis. After this, we present the case study summary and analysis. We

conclude the paper with a discussion on the results of the study and present possibilities for further research.

Theoretical Background

Family business portfolios are common due to family owners' interests in starting and owning multiple ventures. The family owners' interests are related to the creation of employment opportunities for other family members as well as diversity risk (Carter & Ram, 2003; DeTienne & Chirico, 2013; Jaffe & Lane, 2004; Manikutty, 2000). The family is prone to prioritising the employment of each family member and their competencies in the family business (Rautiainen, Pihkala & Ikävalko, 2010). Family owners also engage in the portfolio activities due to the long-term nature of a family business across generations (Carter & Ram, 2003; Cruz, Hamilton & Jack, 2012; Miller & Le Breton-Miller, 2005; Sirmon, Hitt & Ireland, 2007; Zellweger, 2007). Family owners have the advantage of the available resources and processes available to engage in portfolio entrepreneurship (Alsos, Carter & Ljunggren, 2014; Rosa, 1998; Sieger, Zellweger, Nason & Clinton, 2011). The family business system is an open system and is in a constant relationship with its environment through each subsystem, such as businesses and family members (Rautiainen, Pihkala and Ikävalko, 2012). This causes complexities for family firms that may influence the outcomes related to family portfolio entrepreneurship. For instance, the decisions related to entry and exit may be influenced by the overlap of management and control in a family business context and can also be influenced by various emotional issues (Berrone, Cruz & Gomez-Mejia, 2012; DeTienne & Chirico, 2013; Sieger et al., 2011; Akhter, 2016).

Diversification in family business portfolios

Diversification gains are an important rationale behind many activities undertaken by large corporations. Corporate diversification and firm performance are one of the most widely researched areas in strategy literature (Stern & Henderson, 2004) and often target two factors: diversification into related businesses (Palepu, 1985; Markides & Williamson, 1994; Miller, 2006) and diversification into unrelated businesses (Rumelt, 1982; Kogut & Zander, 1992; Hoskisson & Johnson, 1992). When diversification concerns related businesses, the emphasis is on strategic control, whereas when going into unrelated businesses, the emphasis is more on financial controls (Baysinger & Hoskisson, 1989).

Studies (Khanna & Rivkin, 2001; Wright, Filatochev, Hoskisson & Peng, 2005) have suggested that business groups gain scale and scope advantages through diversification, particularly in underdeveloped institutional environments. However, Chakrabarti, Singh and Mahmood (2007) suggested that not all business groups can gain advantages by diversifying in emerging economies. Unlike in the corporate world, unrelated diversification in a family business can be undesirable because it can make family crises more likely.

Leaving a traditional business and entering new markets requires investment, skills and knowledge that may not be found in the family. The ability of existing and newly established companies to continuously create, define, discover and exploit entrepreneurial opportunities requires dynamic capabilities (Zahra, Sapienza & Davidsson, 2006). Zahra et al (2006) define dynamic capabilities as '*the abilities to reconfigure a firm's resources and routines in the manner envisioned and deemed appropriate by its principal decision-maker(s)* (Zahra et al., 2006: 918). Resource configuration requires the skills, motivation and experiences of the firm's key managers.

A family business portfolio is an interlinked network that includes the management and ownership of affiliate firms (Granovetter, 1995; Khanna & Rivkin, 2001). Family owners usually occupy key management positions in the core company and control the whole business

system. The role of family owners in managing strategic decision-making is one distinct factor when monitoring the drivers for diversification decisions. The ambiguous influence of family management in a diversified family business portfolio raises important questions about control problems and bad decision-making (Schulze, Lubatkin & Dino, 2002).

Literature points out the characteristics of family businesses; e.g. decision-making power can be highly centralised (Gersick, Davis, Hampton & Lansberg, 1997; Fan, Wong & Zhang, 2012), and family obligations among family members are derived from the relationships between family owners, turning them into collective decision-making units (Gatfield & Youseff, 2001). Research findings (Weng & Chi, 2019) provide evidence that succession in family firms affects firms' business diversification when second-generation successors inherit the business. Although diversification and entering new markets offers potential for growth and increases the firm's chances of survival (Bercovitz & Mitchell, 2007), some studies indicate that diversification can erode a firm's value and negatively affect profitability (Lang & Stulz, 1995). Thus, there is a need to incorporate capabilities from outside the family, such as from professional managers and partnerships.

In family business innovation research, Rondi, De Massis and Kotlar (2018) introduced the concept *adventurer posture*, where family ownership is seen as a resource consisting of family business traditions and the learned model of growth taking place through acquisitions. According to Rosa and Pihkala (2019), business portfolios are formed based on entrepreneurial opportunity recognition. Instead of incorporating a business into an existing business, entrepreneurs set up a new business and thus reduce the risks involved in single businesses. As the sources of capital are in the group's own hands, this provides the family and operational management with more possibilities for trial and error (Kogut & Zander, 1992). From the perspective of the capital market, the business portfolio can form an internal capital market (Belenzon & Berkowitz, 2010). Operating with its own capital, the enterprising family can

benefit from their long-term orientation to innovation. In that sense, the innovative approach may be more important than succeeding in single innovations (Rautiainen, Konsti-Laakso & Pihkala, 2020: *forthcoming*). Risk-taking capability is often seen as one of the important aspects of successful innovation activities among resources, and knowledge and the business portfolio can support this in various ways (Mäkimattila, Rautiainen & Pihkala, 2016). However, failure in a single business may cause unanticipated problems throughout the whole group. From this perspective, diversification causes decision-makers more internal pressures due to the need to manage the performance of the diversified group.

The governance of family business portfolios

In family business portfolios, the families tend to hold the majority of shares, and exercise power over the portfolio and affiliated companies by actively taking part in the governance and management of the companies. This enables them to influence the strategic direction of the firm, and to allocate critical resources to the implementation of strategy (Yildirim-Öktem & Usdiken, 2010; Sacristán-Navarro, Gómez-Ansón & Cabeza-García, 2011). The governance of family business portfolios should also be able to prevent the challenges and risks posed by concentrated ownership in family business portfolios, such as harmful use of power or the incompetence of the owners (e.g. Daspit, Chrisman, Sharma, Pearson & Mahto, 2018). Still, there is little empirical research about how family business portfolios and affiliated companies are governed (Yildirim-Öktem & Usdiken 2010; Colli & Colpan, 2016; Goel et al., 2019) and how the portfolio structure influences different aspects (e.g. profitability) of affiliated companies (Khanna & Rivkin, 2001).

Governance is the system to articulate owners' objectives and, via specific structures, mechanisms and processes, to establish the strategic direction of the firm, provide the requisite resources and monitor the accomplishment of agreed goals (Goel et al., 2019). Family business

characteristics, e.g. changing generations and the development of family, ownership and business create special challenges for the governance of family business groups (Gersick et al., 1997). The gathering complexity in ownership structure in particular leads to a need to manage varying and multiple goals of different shareholders or shareholder groups, as incoherence in goals can lead to unnecessarily complicated business structures and unclear decision-making processes (Goel et al., 2019).

Boyd and Hoskisson (2010) present two internal mechanisms basing on horizontal or vertical connections to control family business portfolios. Horizontal connections impact via horizontal ties between individual portfolio firms. These ties are interlocking directors, social ties among board members, cross-shareholding in portfolio companies, and resource change between member firms. Vertical ties, often described as pyramid structures, are based on the equity connections and chains of commands running through a portfolio hierarchy (Yiu, Lu, Bruton & Hoskisson, 2007).

A portfolio structure contains both possibilities and threats. The portfolio structure, especially a pyramidal one, creates internal cash markets and opportunities for cash transfer within the portfolio, including in situations where financial resources from external financiers are limited or elusive. Thus, the possibility of internal financing maintains the exploitation of entrepreneurial opportunities (Colli & Colpan, 2016). However, Gopalan, Nanda and Seru (2007) found that instead of financing new opportunities, internal financing (often loans with zero interest) is mainly used to support portfolio member companies in challenging financial situations to avoid portfolio firm defaulting and negative effects (e.g. a drop in investments and the amount of external funding) on the portfolio, and to protect the portfolio members' equity stake.

In addition to financial possibilities, a portfolio structure enhances operational control over the whole portfolio, the internal transactions of strategic factors and more flexible

opportunities to respond to uncertainties and complexities in the environment (Yiu et al., 2007). For example, in their research on institutional voids in emerging markets, Khanna and Palepu (2000) found that business groups utilise group-controlled internal markets to overcome ineffective and inefficient legal institutions.

Concentrated ownership and the existence of a core elite (Yiu et al., 2007) allow the owners to exert strong control over the portfolio firms (Colli & Colpan, 2016). Yiu et al. (2007) mention three possible ways to control decision-making and the direction of the portfolio and individual member companies. Owners can combine ownership and management, or they can build vertical ownership structures. In many cases, the two control mechanisms are integrated; the control created by building vertical ties is supplemented by setting loyal individuals (e.g. family members) to key positions (Yiu et al., 2007, Boyd & Hoskisson, 2010). The third way is to control the transfer of strategic resources within the group.

All the mentioned control mechanisms also include possible threats. Controlling the individual member firms' possibilities to utilise critical resources challenges the member firms to internal competition in addition to external market competition (Yiu et al., 2007). Vertical ties and combining ownership and management enhance the power of the ownership coalition. In these circumstances, non-family CEOs are likely to face difficulties as they are expected to share power with the family members who are still operative in the management of businesses (Miller, Breton-Miller, Minichilli, Corbetta & Pittino, 2014). Holmes, Hoskisson, Kim, Wan and Holcomb (2018) describe an example where the powerful shareholder controls the overall portfolio regardless of legally independent affiliates, thus creating a dual control system with multiple power centres. If the group in power is not competent enough, or the external governance control mechanism fails to limit the harmful use of power, the family business portfolio may get into great difficulties (e.g. Daspit et al. 2018).

Methods and Case Context

We draw on the case study design (Yin, 2009) for this research and rely on a single case study approach. Our primary data source is interviews and archive material. The data for this study is drawn from a combination of interviews, public data, the company archive and grew out of a larger research project examining exit in multiple business family firms. We started collecting the data for this project in 2013 and have conducted follow-up interviews in 2014 and 2019. Interviews were conducted with family owners (second generation owner (father) and third generation owner (son)), non-family managers, in total six interviews were used in this study, each interview with an average length of 55 mins. We have also collected material available from several online social media pages and in four newspaper articles. Besides, onsite observations and field notes were taken during the site visits which comprises of twelve double space pages.

Our case is purposefully selected (Yin, 2011) and can also be considered an extreme case as it represents Pakistan as a specific business context. Most of the firms on the stock exchange in Pakistan are family firms and almost all the private firms claim to have family ownership (Zaidi & Aslam, 2006). The Pakistani business system is mostly based on informal transactions, especially for private firms. Our analytical strategy follows by transcribing the recorded interviews, and the analysis was carried out in the local language Urdu. When we had a good understanding of the case, we started coding the interviews by following the general coding procedure (Miles and Huberman,1994), leading to identify the emerging themes and framework. Finally, we translated the selected quotes in English for presentation. We followed the case processually marking the crucial events and milestones.

Our case is ARPI[1], a third-generation family business portfolio that once owned ten businesses in different areas. ARPI's core business is in the food sector and later in their third

[1] The name of the case has been changed due to the confidentiality agreement.

generation, ARPI started to grow through several unrelated businesses such as automobiles, information technology and advertising. Due to several issues related to their later investments, ARPI exited from almost all of their businesses one after the other and were only left with their legacy business, but at a smaller scale compared to what they had a few years previously. Both the expansion and decline of ARPI's business portfolio occurred in the time of the third generation. ARPI's founder started the food business in the mid-1900s by growing at a steady pace until the second generation took over the business and introduced new food varieties and innovation to the business. The second generation grew the business in terms of products, sales and employees. The third generation entered the business in the 1990s and changed the entire structure of the business. The eldest son of the family introduced more sophisticated ways of managing the business by employing professionally-trained staff and opted for opportunities in sectors other than those under their core area of competence. Currently, ARPI's business portfolio is limited to their legacy business and the family is trying to make a comeback in the market.

Summary of the case and analysis

The case of ARPI allowed us to track the family business portfolio complexity and the reasons why a once prospering and growing family business came to closing not only their subsequent businesses but ultimately their legacy business for a period. The complexities of a family business is more visible in the case of a family business portfolio, as seen in our case of ARPI. The introduction of the third generation, in other words, destroyed the business, which was once managed and controlled successfully by the first and second generations. From a governance point of view, the different owners' objectives in terms of strategy and goals were not managed systematically (Goel et al., 2019). In this case, the difference between the three generations is the introduction of multiple businesses to the group without following a formal

decision-making process or developing consensus around embarking on the growth route. Also, ARPI's third generation introduced innovation in the business by starting subsequent new businesses in unrelated sectors, in addition to their legacy business. This in turn requires the owners to possess the ability to reconfigure a firm's resources and routines (Zahra et al., 2006; Xu, Shou, Chen & Liu, 2012).

The reasons for their exit and eventual failure are outlined in the three main themes: 1) governance, 2) professionalisation, and 3) diversification, and how they are linked to the complex nature of the family business portfolios.

Governance**:** The theme of governance is linked to ARPI's informal governance structure and the growth of its family business portfolio. With the introduction of the third generation to the business, the number of decision-makers increased. Along with the formal CEO, which was the title of the eldest brother, all three younger brothers were acting as informal CEOs. The newly hired managers headed different business units, but they were never able to make decisions because the informal nature of the governance system made decision-making very complex. Excerpts from the field notes, discussion with the elder brother appointed as CEO by the family:

> "The eldest son started as CEO but he always had problems to face due to the other brothers…all three brothers were in charge of one function in the organisation but they would cross boundaries and interfere in other departments and business units….the informality of the system created problems for the family, which was affecting the performance of the businesses."

Concentrated ownership allowed the owners to exert strong control over the portfolio of firms (Colli & Colpan, 2016) based on their own interests. The constant problems within the area of management and control plagued ARPI's day-to-day functioning and slowly started to affect the business performance. Holmes et al. (2018) noted that powerful shareholders can control the overall group and create a dual informal control system with multiple power centres

which cause great difficulties. The blurred boundaries between management and control due to the informality of the governance system played a significant role in the exit from the subsequent businesses. For instance, the constant tensions between the non-family managers at the production plant and the person in charge of human resources, who was one of the brothers, led the departure from the company of a very talented employee. The head of production resigned because of a lack of clear responsibilities and control from the family. Excerpts from the field notes, discussion with the father:

> "The father was of the opinion that his eldest son was doing a great job in growing the business and introducing the new processes. He himself liked and engaged in innovation and did that in their food business…. but he also knew that his other sons had issues with control of the firm and they would often create problems with the managers and were not on good terms when it came to decision-making."(Field notes)

The father, who represents the second generation, acknowledges the fact that the informality of the system worked when there were fewer individuals involved and when there was no distinction between management and control. However, when ARPI introduced the management system in addition to the family's control and the managers were then mostly non-family members, the issues started to emerge and the need for a formal governance system was warranted. However, due to the complexity of the business, the family owners were too busy managing the scale of the business to fix the governance complexity of the informal system. The following was observed by the authors:

> "On the several occasions we visited ARPI's facilities, it was observed and felt that there was tension in the air. The younger brothers were not available to talk, and they would normally have their own agendas. The observation was also later confirmed by the media reports on ARPI." (Field notes)

Professionalisation**:** Family firms are often characterised for being less professional, especially in the older generations when compared to the younger ones (Hall & Nordqvist, 2008; Stewart & Hitt, 2012). In family firms, professionalisation means hiring full-time, non-family employees, and particularly with the delegation of managerial authority (Galambos, 2010; Steward & Hitt, 2012; Parada, Nordqvist & Gimeno, 2010). However, in the case of ARPI, we noticed an over-professionalisation that added fuel to the fire in terms of the inherent complexity of family business groups. ARPI was a traditional and legacy-oriented firm up until the second generation. However, when the third generation stepped in, they wanted the development of the firm to be more professional. The CEO and eldest son – a business school graduate – started following the textbook models and introduced professionally-oriented structures and processes in ARPI. For instance, as noted by the CEO:

> "By introducing professionalisation into our business, we were very successful. We hired business graduates and experienced people in areas like marketing, human resources and accounting, which used to be managed by ourselves or by people who had been with ARPI for several years who didn't have professional qualifications. The new recruits helped us to grow and add new business to ARPI's portfolio."(CEO interview)

Johannisson and Huse (2000) indicate that the information gap between the business owners and important stakeholders can be especially wide in a family business. This in turn can lead to ideological conflicts and tensions between the family institution logic and management logic (Johannisson & Huse, 2000). Family values are important in a family business, as a working family is strongly connected to business creation and development. Initially, it turned out to be a hit and looked smooth, but the professionalisation directly contrasted with ARPI's values and its culture of traditions and past legacies. For instance, the newly-hired team was not familiar with ARPI's past values and introduced their own ways of dealing with the business. Our contextual knowledge of the firm leads us to note that

introducing over-professionalisation damaged ARPI's growing business. The clash of new and old values and practices brought more damage than benefit to the company. As the father noted at one point:

> "It looked from the outside that the business was growing. However, I could sense that it was happening all too fast – it took more than fifty years for my father and myself to grow the business, and just a few years to come to the point where one starts to think what went wrong?"

ARPI brought in ideas from their teams and embarked on the trajectory of growth through diversification and primarily through unrelated diversification, which later became quite challenging to manage.

Diversification**:** According to Khanna and Rivkin (2001), groups gain scale and scope advantages through diversification. ARPI was very successful in its legacy business, which was related to food. The company enjoyed being the market leader for several years in the largest city in Pakistan and later, it entered other cities with franchising branches. The third generation initiated the extension to other cities. ARPI further introduced two more businesses, both of which were related to their core business of food. However, like Chakrabarti et al. (2007) note, not all diversification brings advantages. In this case, the trouble started when the family increased the complexity of the business due to starting unrelated businesses. Unrelated diversification added another variable to the complexity, especially when the family business portfolio was unprepared for the need for more formal governance. As noted by the CEO:

> "The family still thinks that what we did was right, and we had the commitment of all the family to start the businesses outside our comfort zone, but we never saw that the scale of the businesses we started was too big, along with the nature of businesses. We had the abilities to run the business in the food sector, but we had no idea what it should be like in the automobile sector… for that the family hired managers but the complexity of unrelatedness was huge to manage for the family."(CEO Interview)

The unrelatedness of the businesses required capabilities among the family owners to cope with the challenges needed (Zahra et al., 2006). Because of the lack of prior experience in the business areas the family entered, the owners were surprised by the specific knowledge required in the new sectors. The family had the resources and experience in the food sector and the motivation to grow the business even further, but when it came to choose the businesses to enter, the family owners blindly followed the market trends or personal preferences:

> "… father would allow his sons to get into new businesses and bring them under the family business, but the competencies required to run the business were not there and that is why the family was not able to manage the multiple nature of subsequent businesses."(field notes)

Even though unrelated diversification is a feasible strategy for family business portfolios (Mäkimattila, Rautiainen & Pihkala, 2016), it requires having to acquire relevant capabilities to manage the complex nature of the unrelatedness of the diversification.

Discussion

Growth and diversification have been known to include risks and to require good managerial competencies for managing them. In this study we have presented a case study of a family business portfolio, that lost control over its growth strategy, and subsequently the unrelated diversification caused the collapse of the business system. While exit strategies in family businesses have been studied previously (e.g. DeTienne & Chirico, 2013), our study brings another viewpoint to the involuntary decline of a family business portfolio. Simply put, the case company ARPI engaged in an aggressive growth strategy that failed, due to a lack of skills and management. It also took too long for ARPI's owners to remedy the situation, perhaps because they wanted to maintain family unity. Each new generation of leaders should

be able to bring new strategic ideas to the business that build on underlying, long-held competencies developed from earlier strategies. However, the different goals and needs of various owners damage prospects for growth.

Succession in a family business is a very significant factor and can lead to destruction in the management of a company. The centrality of the succession creates new roles for owners and there will often be confusion, inexperience and ambiguity in these new roles. Role conflict may occur because the new appointees in the new organisations may still attempt to manage areas that they previously had responsibility for (Miller et al., 2014). Thus, rarely can everyone involved be satisfied with both the process and the outcome. Our findings suggest that diversification intentions in family business groups are plagued by the lack of capabilities of owners and formal effective governance systems. At the portfolio level, shared insight into portfolio objectives may also be missing, leading to unnecessarily complex portfolio structures (Colli & Colpan, 2016; Goel et al., 2019). The missing insight, together with the lack of a formal governance system, make it impossible to communicate group objectives (and values) to external professional managers, which in turn prevents the effective utilisation of their competencies (Johannisson & Huse, 2000; Miller et al., 2014).

This study represents two main contributions to the field of family business portfolios. First, the study offers new information on failing family business portfolios. In this case, the source of failure grows out of the aggressive growth strategy introduced by the new generation of family business owners. While earlier research has demonstrated multiple times that family business succession is a critical process for the success of a family business, our study highlights a new generation's effect on business growth and subsequent failure.

It seems that along with the introduction of new strategies, family businesses need to adjust their governance mechanisms. This need is manifold: First, if the family members continue to follow their own entrepreneurial goals, it is likely to incur suboptimal results at the

portfolio level. Thus, the family needs to develop its governance practices to control the family members' entrepreneurial behaviour. This can be accomplished by adopting family governance practices, that is, the structures or mechanisms (like a family council) to facilitate the family's relationships with the business for example by determining the family involvement in the business and fostering the development of shared vision about the family business objectives (Berent-Braun & Uhlaner, 2012; Suess, 2014). On the other hand, unrelated diversification requires well-developed strategic management at the portfolio level in terms of new competencies and risk management. While family business portfolios have been appraised for their informal and flexible governance mechanisms, rapid changes in the strategic posture of the portfolio may require stronger control mechanisms. We suggest that by engaging in new growth strategies, family business owners need to consider the compatibility of their business goals and strategies, the complexity of the business portfolio, and the governance mechanisms controlling the system and its parts.

Second, our study provides empirical evidence of the risks included in aggressive growth strategies in family business portfolios. Even if entrepreneurship includes, by definition, the assumption of risks, research into entrepreneurial growth has predominantly focused on successful cases. In this present study, our analysis shows that risks included in unrelated diversification can become true and that these risks may be difficult to manage. From this perspective, managing risks requires special competencies from both the owners and the operative managers. The case further shows that portfolio structures may be vulnerable if some of its businesses should fail. That is, the financial, operational and managerial ties between the businesses may infect the other businesses with the same disease. Although portfolio structure enables the internal financing within the group (Gopalan et al. 2007), the financial support for the group companies may also risk the group level performance. It seems that at least in this present case, the portfolio structure was developed without considering isolating mechanisms

between the businesses. Further studies are needed on the ways in which portfolio structures could entail the isolating mechanisms without sacrificing their flexibility and internal financing advantages.

As ownership develops from generation to generation (Gersick et al., 1997), the degree of complexity of a family business system tends to increase, directly affecting the tasks set for governance. In this situation, an effectively functioning governance system should lead to the identification and enlargement of common goals, and the effective communication of the goals to operational managers (Goel et al., 2019). A family business portfolio structure enables family members to create separate businesses and diversify as a result of the business but also individual motives. In the case of ARPI, the family members founded their own businesses, but the governance of the whole portfolio is inadequate, and the shared vision of the portfolio-level objectives seems to be missing. Keeping individual businesses connected to the overall family business portfolio via governance allows a family and family members to manage the goal diversity (Goel et al., 2019). In turn, collected and communicated goals enable the utilisation of professional external managers and their competencies, thus compensating for the possibly lacking competencies of the owners. In this way, our research contributes to family business portfolio research by emphasising the meaning of a shared, portfolio-level vision and shared insight about portfolio-level objectives, set by the owning family and its individual members.

In their research on large multiproduct corporations, Baysinger & Hoskisson (1989) discuss about internal control mechanisms in cases of related and unrelated diversification. They suggest, that when diversification concerns related businesses, the emphasis should be on strategic control which promotes the openness between the headquarter and the business unit, whereas when the corporation diversifies to unrelated businesses, the emphasis should be more on financial controls and base on the objective financial. Our case highlights the need for

internal strategic control in family portfolio also in case of unrelated diversification. However, the strategic control should be extended from business to the ownership level. This, again, demands owners to have a common view. Basing on our findings, we suggest that successful management of family business portfolio requires owners to discuss about their ownership on a strategic level. The result, the ownership strategy then guides the business level strategic control of companies belonging to portfolio.

Future research

The management and dynamics of failing family business portfolios are largely unstudied. Further studies are needed regarding business exits. While exit strategies have been covered to some extent, more information is needed on the ways family businesses implement the exit. Furthermore, in cases of diversified family business portfolios, what kind of thresholds are there in terms of separate businesses? While it is likely that for most family business portfolios the legacy business would be protected for as long as possible, the evaluation of the other businesses is not as obvious.

The issue of business failure raises interesting question for further research. From a governance perspective, the isolating mechanisms that would keep affiliated businesses safe even if one of the businesses were to prove unsuccessful is of utmost importance. It is likely that to make these mechanisms possible, the family owners need to introduce guiding rules and principles for financing, organising and managing the separate businesses.

Concluding remarks

We conclude our examination with the notion that although a portfolio structure allows diversification based on both individual goals and business reasoning, there should be a shared, combined view of the portfolio, its objectives and the implementation of the goals. Thus,

effectively functioning governance is crucial for the portfolio business and its owners – not only to ensure business performance, but also to create and communicate this shared view of the goals, and for implementing it in its business operations.

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