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What Can Scholars of Entrepreneurship Learn From Sound Family Businesses?

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Scholars of entrepreneurship have focused mostly on founder entrepreneurs, new ventures, venture capital, and entrepreneurial initiatives in larger firms. However, family firms, which account for a majority of new ventures, have received far less prominent attention from the field. Although family businesses, often rightly, have been portrayed as being conservative and even stodgy, many of them are successful and enduring, and enjoy advantages in the business founding, growth, and maturity phases of the life cycle. We discuss the resources that may be responsible for these advantages in successful family firms, and the lessons that may be drawn from such firms for quintessential topics in entrepreneurship such as effectuation, new ventures, venture capital, opportunity platforms, and entrepreneurial orientation.

Introduction

The field of entrepreneurship has attracted a good deal of attention, prestige, and even financial backing over the years. In most respects, this is well deserved as new ventures, as well as venturing within firms, do account for a very significant proportion of economic growth, wealth formation, and new job creation in both the developed and developing world (Amezcua, Grimes, Bradley, & Wiklund, 2013, p. 1628).

We shall argue, however, that for all its merits, the focus of entrepreneurship scholars, as well as policy makers, has been overly weighted toward the venturesome entrepreneur or team, and new corporate entrepreneurial ventures. Too often, the emphasis is on individual action, shorter term objectives, and rapid gains, with less concentration on creating long-lived firms of enduring value. Missing from the conversation are family firms, or an entrepreneur's embeddedness within a supportive family, both of which contain important implications for entrepreneurial founding, new ventures, and intrapreneurship in existing companies (Aldrich & Cliff, 2003; Brannon, Wiklund, & Haynie, 2013). This essay represents a plea to scholars of entrepreneurship to direct more of their focus to

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family firms and family business practices, as these often contain important lessons for the field.[1]

First, there is the question of numbers and where new firms actually come from. The vast majority of successful new entrepreneurial ventures are not undertaken by lone entrepreneurs but are, instead, often embedded in "resource-munificent" (Amezcua et al., 2013) contexts such as a family or a family business (Aldrich & Cliff, 2003). Family business settings provide resources such as knowledge, capital, and even labor. These settings are particularly important economically when one considers that family businesses are the dominant form of enterprise throughout the world, and that is especially true among new ventures (Astrachan & Shanker, 2003; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000).

Second, enhanced inclusion of family firms would more accurately reflect a common locus of entrepreneurship—that within the firm (Shane & Venkataraman, 2000, p. 220). Drucker (1985, p. 144) observes that "the existing business. . . has the best capability for entrepreneurial leadership. It has the necessary resources, especially the human resources. It has already acquired managerial competence and built a management team."

Third, family business studies have gone a long way in identifying the factors that make for success in family businesses. Many of these, we will argue, apply quite directly to new and more established entrepreneurial ventures.

Fourth, given the dramatic failure rate of new ventures, and their considerable liabilities of newness (Stinchcombe, 1965), there are significant resource advantages from having the support of the family. We shall describe these assets below.

In the sections that follow we will address how scholars of entrepreneurship may benefit from the wisdom developed over the years in the family business literature. First, we shall review some provocative research findings to support our contention that some kinds of families and family firms have advantages that contribute to their entrepreneurial capacity, firm growth, and firm survival under hardship. Then, we will articulate which family-related resources appear to account for these advantages. Finally, we shall address how core topics in the entrepreneurship literature can be informed by incorporating the family dimension into subsequent research endeavors.

The Behavior and Performance of Family Firms

There is an emerging body of literature that compares the new and established ventures of entrepreneurs and family firms in their behavior and performance (Andres, 2008; Miller, Le Breton-Miller, & Scholnick, 2008; Miller, Lee, Chang, & Le Breton-Miller, 2009; Miller, Wright, Le Breton-Miller, & Scholes, 2015; Perez-Gonzalez, 2006). The gist of the findings is that family firms survive significantly longer than their nonfamily counterparts, take a longer term view, and are more likely to invest in the business (Miller et al., 2008). Given the high rates of failure of new ventures and small entrepreneurial companies, this ability to endure is a major advantage. In fact, some studies have found family firms to out-survive their nonfamily counterparts by a factor of two or three (De Geus, 1997; Ward, 2006). This is said to be a function of their patient capital, their generous personal and financial investments in the business, and their reluctance to engage in risky ventures that would threaten the viability of the enterprise.

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1. For the last 12 years, ET&P has pioneered in the area, devoting annual special issues to family firms. These have spawned a great deal of interest, both from scholars of entrepreneurship and family business.

Many family firms, it seems, are not preoccupied with achieving quick wins but are there for the long run, often so they can pass on their firm to offspring and maintain a proud status in the community (Gómez-Mejía, Haynes, Nuñez-Nickel, Jacobson, & Moyano-Fuentes, 2007; Ward, 2006). Miller et al. (2008, 2009) in their studies of private Canadian small-to-medium sized firms and Korean high-technology companies, respectively, found that the family firms among them were more apt than the others to employ participative cultures and to form broader and more enduring partnerships with external stakeholders and advisors. Such partnerships were associated with higher levels of growth and better survival rates. There is a growing literature on stewardship and social capital in family firms that is very consistent with the above themes and results (Arregle, Hitt, Sirmon, & Very, 2007; Ward).

In short, there is increasing evidence that because family firm principals wish their businesses to succeed for the long run, often so as to support current and later family generations, they are more cautious, build up slack financial capital, invest in longer term relationships with outside stakeholders, and build more cohesive corporate cultures. All of these things help to make firms robust, and able to withstand periods of scarcity and competition. They also give rise to resources that may be especially valuable for entrepreneurial initiatives.

The Resources of Successful Family Firms

When a family is involved in the creation of a business, it can supply resources that are often not available to a lone entrepreneur who must secure these resources from less socially motivated, less loyal, and less committed parties. Sirmon and Hitt (2003, p. 339) identify "five resources and attributes of family firms that provide potential advantages over nonfamily firms." The resources are human capital, social capital, patient capital, and survivability capital. We develop and build on these categories in the text that follows.

Human Capital I: Unusually Motivated Economical Labor

Whereas most new businesses have to hire some labor, there is certainly an advantage to get the most motivated and economical workforce possible. Often, family members fit the bill. First, they are socially and emotionally attached to the venture and its participants, and often willing to work, at least initially, for little compensation. Second, they have a reputational stake in the venture and are apt to be unwilling to "let the family down." Also, they may be strongly motivated to make the venture survive as the economic and career fates of their relatives are at stake. Such family members are an important entrepreneurial asset as it may take a good deal of time for a new firm or its offerings to gain acceptance and support in the marketplace.

There is an important emerging literature in entrepreneurship on emotional capital—the passion and drive to achieve a particular objective (Cardon, Foo, Shepherd, & Wiklund, 2012; Shepherd, 2004). Many possible drivers of this exist within entrepreneurial family businesses. Some family firm start-ups have abundant emotional capital, where, for example, "necessity entrepreneurs" establish a business because that is the one way they can best support their family—a pressing motive that encourages persistence (Block, Miller, Jaskiewicz, & Spiegel, 2013). In more mature family firms emotional capital may come from the passion evoked by the desire to protect a cherished

family legacy mission (Cardon, Wincent, Singh, & Drnovsek, 2009; Miller & Le Breton-Miller, 2005) or to enhance a family's socioemotional wealth (Gómez-Mejía et al., 2007).

Human Capital II: Range of Knowledge and Mentorship

Knowledge capital is a primary requisite in many businesses, both new and established. And it is not easy to acquire from "outsiders." Even before and ever since the time of the guilds, family members have been passing on their knowledge across the generations via years of patient and close apprenticeship. They have both the incentive and the trust to pass on the intimate details of the business that likely would be denied to any outsider (Bellow, 2004).

Moreover, where there are multiple family members involved in starting a business, they are apt to differ considerably in their skills and talents, so that collectively, they cover more intellectual ground. Also, their family background makes them aware of each others' different strengths and weaknesses, thereby facilitating the allocation of roles and tasks to the appropriate person (Dyer, 2006). Indeed, research has shown that successful high-growth new firms commonly exhibit features that can be found in family firms: specifically, management teams with extensive industry and management experience (Barringer, Jones, & Neubaum, 2005).

Social Capital

Family trust breeds social capital, making exchanges among family members within the firm open and efficient. We all have different social networks, but may be reluctant to share them with strangers due to selfish interests or a fear of later embarrassment. This is less true within the young family firm where everyone may use their personal contacts to acquire resources such as labor, knowledge, clients, financing, and the like. Such social capital often crosses the generations, as when a father passes on his business contacts and reputation to offspring starting a business (Arregle et al., 2007; Ward, 2006).

Like social capital and relationships, *personal* reputation, sometimes can be passed across and within family generations (Miller & Le Breton-Miller, 2005; Steier, 2001). Where people come from "a good family," particularly one with prominence in the community, they have a head start in being credible enough to obtain resources (Arregle et al., 2007; Le Breton-Miller & Miller, 2015).

Patient Financial Capital

Under economic regimes of capitalism, property rights play an important role in the welfare of households and nations. These rights include control over an asset, the returns it generates, and the ability to pass accumulated capital onto others. Thus businesses are often started with family capital that is patient and has few strings attached. It is typically easier getting a loan from a family member than a banker. Moreover, there is often a greater motivation to not disappoint one's close relatives and, therefore, to be better stewards of the capital.

Given family members' concerns with the career prospects of their kin, their financial well-being, and their reputation, they have an incentive to use resources wisely (Dyer, 2006; Ward, 2006). They are less likely to go for the "big win" and instead will cautiously

husband their resources and build up financial slack to last the firm through the tough years. Having said that, concern for the long-run viability of an enterprise and leaving the firm in good condition for successors may induce families to use their patient capital to engage in more product-market renewal and hence more incremental innovation (Chrisman & Patel, 2012; Miller and Le Breton-Miller, 2005).

Risk Management in Business Renewal and Family Capitalism

Although it is true that family firms, despite their superior longevity, may die off during or after a second generation, the family often remains in business due to its ability to apply its financial, reputational, and knowledge capital in other businesses (Wilson, Wright, & Scholes, 2013). Later- (and first-) generation founders who have access to familial resources are able to "leapfrog" their less knowledgeable, less connected counterparts. Simply put, "building on the shoulders of others" provides additional resources to leverage. It would be a very different world if all firms had to start anew.

Family Firms and Topics in Entrepreneurship

It is useful to specify just how family firm resources can contribute to the literature on entrepreneurship. We deal with a sampling of topics that is suggestive, but by no means exhaustive.

Effectuation

Sarasvathy (2001, p. 249) has argued that new ventures start with means rather than ends—that is, with the circumstances of the decision maker, a set of evolving aspirations, constraints imposed by limited means, and some selection criteria. As we have argued above, the resources provided by a family often constitute a more elaborate set of means than those of a single individual. It is clear that the pooling of financial, knowledge, and relational assets can be most advantageous, especially where orchestrated effectively (Sirmon & Hitt, 2003). However, more subtle resources may take the form of motivational and emotional resolve (Cardon et al., 2012), such as may be present where families work together to ensure their economic future, family harmony and integrity, and familial reputation. These family-centric motives relating to the over-riding primacy of this social group can have an enormous impact on the resilience and determination of ventures that are critical to family outcomes (Dyer, 2006; Ward, 2006). Non-economic objectives that often characterize families also enhance the possibilities of effectuation as they expand the array of perceived opportunities. Launching a family business endeavor may procure not merely economic benefit but jobs and learning opportunities for kin, family status in the community, and occasions for bolstering family unity (Chua, Chrisman, & Chang, 2004; Gómez-Mejía et al., 2007).

New Ventures and Liabilities of Newness

New firms face a critical "liabilities of newness." Entrepreneurs must learn new skills, invent new roles and routines, establish social relations among strangers, and develop a set of stable ties with users of their services (Stinchcombe, 1965, p. 148). Many of the resources we have mentioned above, family knowledge and capital, cheap

and motivated labor, high levels of commitment, cautious investment policies, do help to guard against failure. Where families launch or found a new venture out of their old firm, they are often in a position to pass on skills and relationships to the new initiative and perhaps its younger generations. These new "ring fenced" ventures are also a way for family firms to renew family capital without risking the reputation or performance of the parent company (Wilson et al., 2013). Moreover, when businesses are started by several family members working together, they may have greater trust, esprit de corps, and motivational and emotional resolve to support one another and the venture on which they depend than would say a lone entrepreneur or a team of unrelated founders (Rafaeli, 2013).

Venture Capital

Financial funding is critical to the venture creation process. Scholars of venture capital have emphasized institutions and those with whom one has arm's-length relationships as sources of venture capital. However, these may be more demanding and impatient investors than one's family members, and they may also be less motivated and less generous (Steier, 2003).

It is perhaps not surprising then that although such arm's-length venture capital receives a great deal of attention in the entrepreneurship literature, it accounts for a relatively small portion of financial deals and aggregate dollars in play. In reality, entrepreneurs often rely on family members for financial support. In fact, the family may represent the "largest single source of start-up capital in the world" (Steier, 2003). It is perhaps the core element of the venture-creation process. Familial investing exhibits a wide array of financial deals and structures. These are driven by complex motivations that spawn a variety of agency contracts ranging from pure altruism to market rationales (Steier).

In addition to being sources of finance, family members may offer conduits to venture capital. For example, in their study of firm founding and the evolution of angel financial networks, Steier and Greenwood (2000) observed that firms engage in an odyssey of relationship-building and consolidation, often involving weaker ties to more arm's-length family business networks (Granovetter, 1973). These initial successes during the critical early stages of a firm enable them to grow and become more attractive to formal investors. The further study of familial sources of venture capital and their governance would greatly illuminate our understanding of entrepreneurship.

Opportunity Platforms

Shane and Venkatraman (2000, p. 220) argue that in order to have entrepreneurship "you must first have entrepreneurial opportunities." Entrepreneurship concerns itself with the mobilization and leveraging of resources beyond what one currently controls, and many entrepreneurs strive to leverage resources and relationships found in their existing social groupings. As noted, families and family firms offer resource endowments that may offer propitious leveraging opportunities. By providing a multiplicity of resources such as knowledge of organizational routines, market niches, and product innovation, households and existing family businesses represent significant sources of opportunities as well as potential business incubation platforms (Steier, 2009; Steier & Greenwood, 2000; Thornton, 1999). The family also provides a critical set of values and norms that can influence the tendency to launch a venture (Aldrich & Cliff, 2003).

Family-Household Embeddedness

The forces that affect firm creation and survival also need to be better understood (Shane, 2008). Economic action is embedded in social structures that merit more consideration (Granovetter, 1985). In addition to offering opportunity platforms, households, and families present unique—albeit highly varied—venture creation contexts throughout the world (Steier, 2009).

There is an emerging literature on how the embeddedness of entrepreneurs within family household systems, and the resources, transitions, and values within those systems, shape processes of opportunity recognition, business launch decisions, resource mobilization, and the very nature of the business being founded (Aldrich & Cliff, 2003). The birth of a child can provoke longer time horizons. Moreover, variations in family compositions may differentially influence the potential to launch a successful business: for example, couples may be more likely than biologically related individuals to achieve success in a new venture due to less binding and less normatively homogeneous identities (Brannon et al., 2013; Schjoedt, Monsen, Pearson, Barnett, & Chrisman, 2013). Finally, the financial and emotional outcomes from a venture can alter family attitudes and decisions. Thus, for example, success in a given venture may encourage a family with a single business to become a "business family" with multiple ventures and businesses, often in different industries (James, 2006; Landes, 2006).

Entrepreneurial Orientation

Family firms have been criticized as not being highly innovative (Block et al., 2013). Among family firms subject to short-term pressures from impatient shareholders that well may be the case. However, there is emerging evidence that suggests that family firms, even those in high-technology environments, can be highly entrepreneurial (Miller et al., 2009). This is because their long-term orientation induces them to invest for the future—to renew product lines and technology to keep the firm robust. It also encourages developing employee talent and nurturing external alliances and relationships to support these efforts at renewal (Ward, 2006).

There is one traditional component of entrepreneurial orientation that family firms may score low on: that is, risk taking aimed at quick wins. Certainly, aspirations of corporate longevity may limit the fraction of resources families are willing to risk on a single project. However, families' patient capital may enable their firms to pursue projects with longer payoffs, especially if they build up slack resources, as many have been shown to do. Thus family firms such as Corning and Michelin have pioneered bold new technologies during their 100-plus–year history by waiting patiently for returns from new products (fiber optics took more than 15 years to pay off), while funding themselves with legacy offerings (Miller & Le Breton-Miller, 2005).

Growth and Survival

A common danger of entrepreneurial ventures is that in the attempt to grow too quickly, they overextend themselves and fail during their first crisis (Barringer et al., 2005; Greiner, 1972). The stewardship instincts present among many family firm owners and managers help to guard against this. In fact, Miller and Le Breton-Miller (2005) have found that their family firms, which had attained very significant levels of growth and in many cases industry dominance, were quite cautious in their attempts to grow, in part because of their concern to keep the company healthy for later family generations.

Firms tended to eschew making acquisitions and preferred to grow organically to control the pace of growth and ensure that it could be financed adequately. Thus scholars of entrepreneurship might do well to compare the growth strategies of family and nonfamily firms.

Renewal in Maturity

Entrepreneurial initiatives also may differ between mature family versus nonfamily firms. As noted, concern for the long-run viability of the firm due to worries about succession to the next generation can encourage innovation (Chrisman & Patel, 2012; Ward, 2006). Conversely, the family traditions that develop in a firm over many years, and the involvement of multiple generations or even branches of a family as business owners or managers may provoke conflict and drain firm resources. Nepotism and entrenchment may exacerbate these problems such that family socioemotional preferences come to outweigh business and market concerns (Gómez-Mejía et al., 2007). Finally, as mature family businesses find themselves in a stagnating or declining market, the family may have its younger generations branch out to start different enterprises as a source of risk reduction and economic diversification and renewal (Wilson et al., 2013).

Conclusion

For all of the above reasons, we believe that the new ventures started by family firms will be able to outsurvive and, in the long run, outperform those begun by lone entrepreneurs or unrelated partners. Also, family firms may be better at sustaining innovation and corporate entrepreneurship. At the very least, such conjectures warrant further research.

Certainly, family firms may be plagued by unique types of problems, ranging from those of nepotism, entrenchment, succession, family conflict and conflicting priorities, and even capital shortages. Indeed, these much studied limitations may constitute one reason why such firms have been neglected and criticized. Nonetheless, these are, in many instances, surmountable problems. Moreover, as we have argued, the embeddedness of a business within a family household can aid immeasurably in launching and sustaining an enterprise and in driving its innovative efforts, and scholars of entrepreneurship would be wise to pay heed to such advantages and to these forms of enterprise. Our main message, however, is not that family firms are necessarily superior to others in their entrepreneurial endeavors, but rather that *nonfamily firms and entrepreneurship scholars may learn much about entrepreneurship by studying their practices*.

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