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## **The transgenerational family effect on new venture growth strategy**

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**Abstract:** We examine family-based resiliencies and transgenerational phenomena in family business contexts and introduce the transgenerational family effect (TFE) construct. The TFE influences long-term strategy and culture in family-based entrepreneurial ventures. We clarify the boundaries of the construct based on evidence from 414 cases in the panel study of entrepreneurial dynamics. Then, we operationalise it with two-by-two permutations of family membership and strategic tradition. Finally, we develop and assess hypotheses about venture strategic vision, growth orientation and wealth orientation. Our findings suggest that the TFE promotes vision and wealth creation across generations in family businesses.

**Keywords:** entrepreneurship; transgenerational; family; vision; growth.

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## 1 Introduction

The earliest notions of formal entrepreneurship were from Cantillon (1755), who regarded entrepreneurs as individuals who embrace uncertainty, in the course of profit-seeking business activity (Murphy et al., 2006). Timmons (1999) describes entrepreneurship as creative human action that builds value from almost nothing through the pursuit of opportunity beyond the resources currently possessed. All definitions suggest that entrepreneurship links vision, commitment, passion and people to a common cause. Indeed, entrepreneurial activity is regarded as an engine of socioeconomic prosperity around the world and family businesses are an important part of this context. Family-run ventures represent up to 47% of the businesses listed in the Fortune 500 index (Astrachan and Shankar, 2003). In family business contexts, an entrepreneurial mindset can drive creation and continuation of ventures across generations, which enables consistent strategic execution.

When entrepreneurship occurs in family contexts, the ventures benefit from access to family-based business networks as they generate value that fulfils economic and social needs. Family businesses are enterprises managed by owners in which family members exercise considerable financial and/or managerial control (Ward and Aronoff, 1990). Given that family ventures have an average life span of 24 years, and that about one-third of them survive into a second generation, a kind of consistency has been noted in family ventures that distinguishes them from non-family ventures. This consistency fosters entrepreneurial activity across generations in the long-term operations of family businesses. In this paper, we examine this construct and refer to it as the transgenerational family effect (TFE).

## **2 Background**

Theory and practice indicate that the interaction of the family unit, business entity and individual family members create unique conditions and constituencies that affect performance in family business contexts (Habbershon et al., 2003). When these conditions begin to transcend generations, an undercurrent of socioeconomic fortitude reinforces entrepreneurial behaviour over especially long stretches of time (Pistrui, 2005). This trend, which we refer to as the TFE, encourages environmental alertness to profit opportunities and fosters individual and family-based need for achievement. It fosters growth and learning orientations in a family and in the business. In particular, the TFE fosters two distinctive conditions. First, there is an entrepreneurial drive to create transgenerational wealth. Second, there is a commitment to family traditions despite changes in family structure over time.

Family plays several important roles in the creation of social and economic value and transgenerational wealth (Habbershon and Pistrui, 2002). In practice, it serves as a source of seed capital, new employees and managers, and advisors. As an area of research, the importance of family offers unique research questions that are outside the boundary conditions of standard entrepreneurship research (Bird et al., 2002). For instance, family business is concerned with

- 1 the direct roles of family in new business venture (NBV) development processes (e.g., participation on the start-up team)
- 2 the indirect roles of family traditions as drivers of venture mission, strategy and operations.

This conceptual domain, which underlies the TFE, contains four subgroups reflected family business ventures:

- 1 family members promoting family traditions
- 2 family members promoting independent non-family traditions
- 3 non-family members promoting the family traditions of the founder(s)
- 4 non-family members promoting independent non-family traditions.

Moreover, these characteristics of the family business venture team covary with three categories of venture strategy that signifies an emphasis on

- 1 tradition
- 2 growth
- 3 revenues.

Research on the TFE focuses on direct and indirect antecedents and consequences germane to these categories to offer theoretic and practical contributions. From a theoretic perspective, the research contributes to the development of a distinct area of family business research. From a practical angle, the research fosters transgenerational entrepreneurship in family contexts by outlining the nature of continuity for family businesses. In what follows, we review the relevant literature on family business in order to develop hypotheses about the TFE and its effects on venture performance outcomes.

### 3 Literature review

The family is part of the foundation of virtually all human cultures. Organised around a host of functions beyond the biological sense, family is a clustering of individual roles around shared needs (Parsons, 1955; Benedict, 1991). Traditionally, family serves three functions in a social system. First, it plays an economic role; as a basis of learning about economic activity, it accomplishes the teaching of skills to members. Second, family provides a moral system that promotes certain codes of conduct. The moral aspects of a family balance ideas with realism in a social context that is subordinate to the larger societal structures in which it is embedded. Lastly, a family creates its own culture. As a family adapts to a changing environment, it builds networks based on emergent needs. In this anthropological setting, family is the harbinger of motivating forces for enterprise formation and development. These forces underlie the TFE construct.

The family is a social unit, similar to an individual or group. In entrepreneurial contexts, family can add unique value to enterprise development. For instance, aside from nepotism and paternalism, family promotes cohesiveness in unstable economic circumstances (Benedict, 1991; Pistrui et al., 1997a; Wintermantel, 1999). The cohesiveness, in turn, promotes adaptability in such tough environments. An identity based on core family values from previous generations also promotes venture success in volatile environments, especially in developing economies (Hatun and Pettigrew, 2003; Teece et al., 1997). Steier (2003) pointed out that familial ties play a role in the entrepreneurial process outside the family unit. The family represents a repository of socioeconomic resources that entrepreneurs can draw from as they create an NBV. Steier (2003) presents examples that operationalise tactical components of the TFE based on the value that a family can add to a new venture:

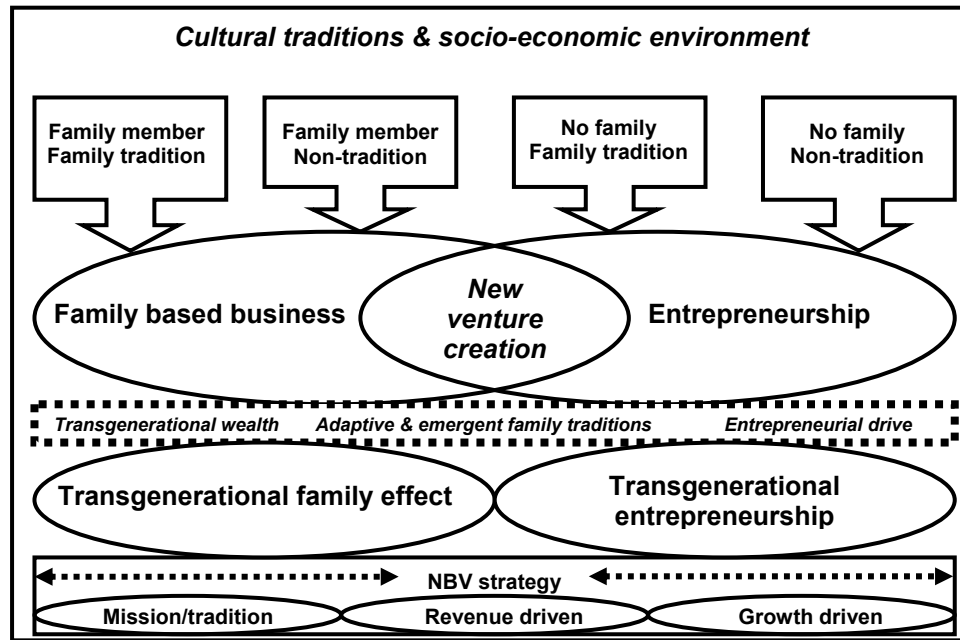
- 1 Business incubation: embracement of entrepreneurship from childhood; entrepreneurship as a career choice.
- 2 Resource supply: primary resources such as capital and labour; secondary resources such as relationships and networks.
- 3 Agent for overcoming liabilities of newness: stable social relations for early stage survival and development.
- 4 Context for venture development: relationships among and across generations; multiple dimensions of legitimacy, family involvement and investments.

Family firm advantages are also illustrated in transaction analysis (Barth, 1966; Benedict, 1991), by providing advancements over social structure equilibrium (Radcliffe-Brown, 1952). Transactional analysis examines individuals instead of the external elements. Whereas family roles are transactional phenomena, they are intertwined with enterprise transactions, adding dynamism that is outside the transactional approach. In family ventures, what begins as simple family household tasks can evolve into economic responsibilities. Therefore, as family and firm mature, family members assimilate experiences from one another as they develop into business associates. This transactional process is a platform for family and economic activities that underlie the TFE.

Scholars examine family business subsystems and call for research to empirically identify these subsystems and then relate them to entrepreneurship in family firms (Chua et al., 1999; Zahra et al., 2004). Based on our literature review, we extend these notions

in Figure 1 to illustrate the TFE construct and its boundary conditions. The model acknowledges the interface of family culture and business culture (Heck, 2004). In what follows, we develop hypotheses designed to clarify the effects of vision, intentions, and behaviour in the TFE framework.

**Figure 1** The TFE and entrepreneurship



#### 4 TFE overview and hypothesis development

##### 4.1 Vision

Vision is a guiding concept to what an organisation’s objectives are and what the organisation wants to accomplish. Vision tends to consist of broad, general concepts and values which apply over a longer period of time. This vision is thus translated and communicated into a strategic mission. In family businesses, there is a great probability that the founder and their legacy will be central to strategy and decision-making (Kelly et al., 2000). The founder’s influences are the result of both formal and informal interactions among the founder, family members and top management.

Poza et al. (2004) investigated the relationships between ownership, management and family systems and reported that positive family business interactions create family unity and business opportunities. Qualities associated with these behaviours include adaptive and emergent family traditions, entrepreneurial drive, and the desire to perpetuate wealth across multiple generations (transgenerational wealth creation). These are properties associated with both the TFE and transgenerational entrepreneurship. Consequently, we set forth the following proposition and hypothesis:

- Proposition 1 A TFE persists in family-based firms, clarifying and articulating venture strategy independently of family member involvement in the venture.
- Hypothesis 1 Family-based firms with family member involvement and TFE have clearer strategic vision and mission than those without TFE.

Through the testing of the preceding hypotheses, this research intends to build on the work of Chrisman et al. (2002) who reported that family involvement has a consistent impact on the perceptions and performances of new venture start-ups in the US. This study aims to add knowledge to the understanding of how and why family involvement affects new venture formation.

#### 4.2 *Growth*

Dunkelberg and Cooper (1982) argued that growth orientation represents a uniquely important entrepreneurial characteristic. Researchers have also found entrepreneurial orientation to be a determinant of small firm growth. For instance, Birch (1987) argued that attitude rather than sector or location determines growth and success. Moreover, Brown (1995) suggested that entrepreneurial orientation had a positive impact on small firm growth. Carland et al. (1984) suggested that planned growth is an important method of differentiating entrepreneurs from small business owners, while Pistrui (2002) illustrated that growth intentions and expansion plans are fundamental components of NBV development. Donckles and Frohlich (1991) identify specific characteristics of western European family businesses that both support and inhibit business development. They argue that family firms provide basic resources but may foster conservative strategies rather than creativity, innovation and growth. Culture also affects growth orientation. For example, Koiranen (2002) reported that family businesses scored lower than expected on values related to economic return (e.g., growth, social recognition) and higher on values and ethical behaviour.

Martin and Lumpkin (2003) discovered that family businesses replace entrepreneurial orientation with family orientation as they mature. Family orientation is marked by stability and inheritance as primary business drivers. Similarly, Gallo et al. (2004) concluded that family ventures grow less than non-family ones in domestic and international sales and equity. Indeed, most research identifies a need for greater understanding of growth orientation's relation to family business.

- Proposition 2 The presence of TFE in family-based entrepreneurial firms leads to stronger growth orientation independently of family member involvement in the venture.
- Hypothesis 2 Family-based firms with family member involvement and TFE have stronger growth orientation than those without TFE.

Examination of this hypothesis builds on Pistrui et al. (1997b), Gundry and Welsch (2001), and Pistrui (2002). These past studies show that entrepreneurs have distinctive strategic intentions about market growth, technological change, and willingness to sacrifice on behalf of the business.

### 4.3 *Wealth orientation*

Teece et al. (1997) contend that business performance is not simply a function of how an entrepreneur approaches the operations of the enterprise, but also how they deploy assets in the marketplace. An operationalisation of transgenerational wealth can help raise understanding of how family businesses employ financial assets to create business continuity. Zahra (1999) recognised the need to study novel deployments of assets by arguing that in some situations it is better to dissolve family businesses and redeploy assets. However, Chua et al. (1999) point out that family business relies on family ownership and management of the business. Taking both perspectives, we hold that entrepreneurial activity can remain family-influenced but still emphasise traditional wealth creation through novel means (Habbershon et al., 2003). In this sense, the systematic interactions of the family, business and members create unique bundles of strategic resources and capabilities in a firm.

Transgenerational wealth represents a research perspective amenable to empirical testing. Habbershon and Pistrui (2002) define it as a continuous stream of wealth that spans generations. There are two important boundary conditions. First, wealth creation is the primary performance goal. Second, the importance of following the resources generated over time by the family. These conditions subsume three aspects:

- a a distinctive strategic perspective for assessing resources and creating new advantages
- b an enterprising family framework to address strategic deficiencies over time
- c the importance of an ownership mindset and strategic methods.

Our third proposition and hypothesis reflects these aspects of wealth orientation.

Proposition 3     The presence of TFE in family-based entrepreneurial firms leads to stronger wealth creation orientation independently of family member involvement in the venture.

Hypothesis 3     Family-based firms with family member involvement and TFE have stronger wealth creation orientation than those without TFE.

## **5 Method**

### *5.1 Sample*

To assess our hypotheses, we drew 414 cases from the dissertation dataset of Murphy (2004), which drew from the Panel Study of Entrepreneurial dynamics (PSED). Fifty-three were family-based and 361 were non-family based. The demographic were 58.8% male, 66.1% Caucasian, 23.7% African American and 8.2% Hispanic. Of those NBVs, the majority was services (43.9%) or retail (25.2%).

### *5.2 Procedure*

The PSED built on earlier research at the University of Michigan Institute for Social Research (Curtin, 1982; Reynolds and White, 1993) examining the entrepreneurship

process with a view toward comprehensive description and explanation (Shaver et al., 2001). The collection of cases for the PSED included a national screening, initial round of data collection through phone and mail interviews and follow-up interviews. Data compilation began with a random telephone survey of 64,622 adults in the US. Each case had to meet three criteria to be included:

- 1 the contact had to expect to own all or part of the NBV
- 2 activity related to launching the NBV must have occurred during the past 12 months
- 3 the NBV could not have generated income to cover expenses for more than three months.

Different people associated with the NBV over time provided longitudinal data [Reynolds and Curtin, (2004), p.468].

### 5.3 *Measures*

Survey items from the PSED mail survey (Shaver et al., 2001) were used to operationalise the variables in our study. *Family membership* was evaluated using the following question from the survey: ‘How would you describe the relationship of (you/NAME) to (start-up team member/NAME)? Are (you/NAME) and (start-up team member/NAME) spouses or partners; relatives; business associates or work colleagues; friends or acquaintances; strangers before joining the start-up team?’ *Family tradition* was evaluated using the item, ‘To what extent continuing a family tradition important to you in establishing this new business?’ The response was made on a five-point scale with 1 being to no extent and 5 being to a very great extent. *Growth orientation* was evaluated using the following question: ‘Which of the following two statements best describes your preference for the future size of this business:

- 1 I want the business to be as large as possible
- 2 I want a size I can manage myself or with a few key employees?’

*Wealth creation orientation* was evaluated using the following question: ‘To what extent is having a chance to build a great wealth or a very high income important to you in establishing this new business?’ The response was made on a five-point scale with 1 being to no extent and 5 being to a very great extent. Finally, *personal vision* was evaluated using the following question: ‘To what extent is fulfilling a personal vision important to you in establishing this new business?’ The response was made on a five-point scale with 1 being to no extent and 5 being to a very great extent.

### 5.4 *Analysis*

Due to turbulence in the data that threatened parametric analysis assumptions, we executed median-split and trichotomous recoding of variable scores into three-equal groups. The nature of the response options lent themselves to such recoding. Three variables were dichotomised (family tradition, family membership, growth orientation) and two variables were trichotomised (wealth creation orientation, personal vision). Distributional violations of analysis assumptions are of particular relevance in entrepreneurship research due to the volatile nature of entrepreneurship data (Murphy and

Shrader, 2004; Robinson and Hofer, 1997). The use of distribution free and sample-specific (non-parametric) statistics offers one method to handle such violations. Another option is utilisation of logarithmic transformations to normalise score distributions. In our sample, missing data in the PSED and the greater capacity of non-parametric tests to handle missing data [Hardle, (1994), p.13] justified our decision to safeguard conclusion validity by dichotomising study variables and conducting non-parametric frequency analyses employing  $\chi^2$  test statistics.

## 6 Results

Table 1 presents frequency counts for all study variables. Frequency counts for a  $2 \times 2$  combination of family membership and family tradition are included to give a detailed depiction of the data. This four-part division, as presented above, is also one way to operationalise the TFE, as it reveals NBVs without family membership that still carry on a family tradition.

**Table 1** Study variable frequency counts ( $N = 414$ )

	<i>Response option</i>	<i>Count</i>	<i>Percentage</i>
Family membership			
	Family members on start-up team	53	12.8%
	No family members on start-up team	361	87.2%
	Total	414	
Family tradition			
	Intend to carry-on family tradition	52	20.1%
	Do not intend to carry-on family tradition	207	79.9%
	Total	259	
Growth orientation			
	Intend to grow the NBV	95	23.3%
	Intend to maintain NBV size	312	76.7%
	Total	407	
Wealth creation orientation			
	Money not a motivator	75	29.0%
	Money somewhat of a motivator	70	27.0%
	Money definitely a strong motivator	114	44.0%
	Total	259	
Personal vision			
	Personal vision is not a factor for starting NBV	34	13.1%
	Personal vision is somewhat a factor	39	15.0%
	Personal vision is definitely a factor	187	71.9%
	Total	260	

**Table 1** Study variable frequency counts ( $N = 414$ ) (continued)

<i>Response option</i>	<i>Count</i>	<i>Percentage</i>
Family membership $\times$ family tradition (TFE)		
Family membership with family tradition	10	3.9%
Family membership without family tradition	21	8.1%
No family membership with family tradition	42	16.2%
No family membership without family tradition	186	71.8%
Total	259	

### 6.1 Tests of analysis assumptions

The frequency analyses we employed required cell frequencies to be independent. Examination of our data showed no cases to contribute values to more than one cell. For statistical power, an acceptable multiplier difference of five between sample size and the number of cells was observed [Tabachnik and Fidell, (1996), p.243]. Expected cell frequencies for two-way associations all exceeded five (Milligan, 1980). Satisfactory observations in each of these areas supported the use of frequency analysis using  $\chi^2$  test statistics as an acceptable statistical method to explain variance in the data.

### 6.2 Tests of effects

We assessed hypothesised effects via their two-way associations and  $\chi^2$  test statistics. Significant effects were found for the relation between TFE and personal vision [ $\chi^2(6, 1) = 12.14$ ;  $p = 0.039$ ] as well as wealth orientation [ $\chi^2(6, 1) = 14.75$ ;  $p = 0.004$ ], providing support for Hypotheses 1 and 3. The effect for the relation between TFE and growth orientation was middling [ $\chi^2(6, 1) = 0.494$ ;  $p = 0.925$ ], which failed to reject the null hypothesis and offered no support for Hypothesis 2. Table 2 presents results for all tests of effects.

**Table 2** Hypothesis test<sup>1</sup> results ( $N = 414$ )

<i>Outcome</i>	<i>Hypothesis</i>	<i>Valid n</i>	<i><math>\chi^2</math></i>	<i>p</i>
TFE				
Vision	1	259	<i>12.140</i>	<i>0.039</i>
Growth orientation	2	256	0.494	0.925
Wealth creation orientation	3	257	<i>14.750</i>	<i>0.004</i>

Note: <sup>1</sup>significant one-tailed effects ( $p < 0.10$ ) are italicised.

## 7 Discussion

This research represents one of the first studies that delineates a TFE in entrepreneurial NBVs and relates this effect to NBV outcomes. Building on a large and burgeoning stream of research (e.g., Chrisman et al., 2002; Kelly et al., 2000; Poza et al., 2004; Koironen, 2002; Martin and Lumpkin, 2003; Gallo et al., 2004; Pistrui, 2002;

Habbershon et al., 2003; Habbershon and Pistrui, 2002; Steier, 2003; Zahra et al., 2004; Chua et al., 1999), we developed and assessed a theoretic model. Two out of the three hypotheses regarding NBV outcomes were supported. In what follows, we discuss our findings in terms of the TFE's effect on these outcomes.

### *7.1 Vision and mission*

We found TFE to have an effect on the strategic vision and mission of NBVs. In particular, family member involvement had a key influence. This result supports a contention by Kelly et al. (2000) that the entrepreneurial spirit and legacy of the founder shapes strategy and decision-making much later in the life of a venture. This finding also supports Poza et al.'s (2004) observation that positive interactions between family, owners, and management promote unity and opportunity. Perhaps the most important implication of this finding is that it builds on research by Chua et al. (1999), which illustrates that family involvement affects NBV performance.

This result also has practical implications. It shows how entrepreneurship and family business educators, professional service providers, and government agencies can view family as an important element of entrepreneurship. Recognising the TFE thus represents a way to use family systems to foster socioeconomic development and stability in established and transitional economies.

### *7.2 Growth orientation*

We did not find a relation between TFE and growth orientation. Whereas TFE may encourage NBV development, it was not associated with particularly elevated growth aspirations in our sample. One explanation might be that all entrepreneurs, independent of family influence, have high growth aspirations. If so, it replicates past findings (Pistrui, 2002; Pistrui et al., 1997b) showing that almost all family-based firms have significant growth intentions and expansion plans. There may also be macroeconomic forces associated with the different stages of economic development that affect growth orientation. Future research might seek to replicate this result in various economic system contexts.

The null finding is also consistent with Koiranen (2002) and Gallo et al. (2004) who reported that family NBVs place less emphasis on growth and international development than non-family NBVs. The TFE may also encourage an orientation of stability and preservation as opposed to aggressive growth (Martin and Lumpkin, 2003). The effect of TFE on growth orientations would also benefit from cross-cultural investigations as it relates to new venture creation.

### *7.3 Wealth creation*

Our strongest finding involves TFE and wealth creation and replicates Habbershon and Pistrui (2002), Habbershon et al. (2003) and Pistrui (2005). We posit that family NBVs make transgenerational wealth creation a primary goal that is bolstered by interactions of family, business and individual members. Furthermore, this particular finding answers the call from Chua et al. (1999) to move beyond operational definitions of family business and toward explaining the nature of family influence on material outcomes.

Building on the research of Teece et al. (1997) and Zahra (1999), this finding also provides insights into how TFE affects the redeployment of financial assets. It is in line with the notion that long-term business success is in the ability to build and sustain an entrepreneurial family (Pistrui, 2005). While this finding is noteworthy, it is a first step in understanding transgenerational wealth creation in family-based entrepreneurship. We call for future research targeting this relation.

## 8 Limitations and conclusions

Our findings are best regarded in light of two principal limitations. First, the use of a sample-specific analysis method in our study somewhat limits the generalisability of our findings, although the method allowed us to evade violations of parametric analysis assumptions. Second, by drawing all study variables from the same dataset, our study results are at risk of suffering from single source bias. However, as the compilation of the PSED was undertaken with rigour and a view toward reflecting the US population (Shaver et al., 2001), we believe this limitation is mitigated.

Our study of the TFE provides new context for environmental alertness to opportunities and individual and family creation of NBVs. It reinforces the importance of entrepreneurial vision and mission in that it articulates that drive for transgenerational wealth. This drive is rooted in an orientation that motivates a family as ownership group and also the non-family managers. The TFE construct we present in this paper also offers a context for adaptive family values in family business. Commitment to family traditions must retain adaptively to changes in family and business structures over time.

Our research represents one of the first formal studies of the TFE. By operationalising the construct as an effect that can transcend membership and firm, we have built on past research (Habbershon and Pistrui, 2002; Pistrui, 2005) by taking steps toward operationalisation of the construct. With these initial boundary conditions for new theory in the field of family business, contributions to this line of inquiry will serve to define and delineate the TFE and its effects more clearly.

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