Family Enterprise: Thinking Beyond a Legacy Family Business

CHAPTER 2

ENTREPRENEURSHIP IS FOR FAMILIES, NOT JUST FOUNDERS

This chapter explores how entrepreneurial thinking and behavior drives the founding of new ventures, the professionalization of family businesses, and the creation of family enterprises. As the firm grows and becomes more complex two things happen: the business requires professionalization and innovation to continue growing successfully; and the family needs to become professional directors and owners. The professionalization of the firm demands leaders with an entrepreneurial mindset and technical leadership skills to balance an innovation culture with structure and processes.

Let's look at it another way. When entrepreneurship is *not* part of the family and organization's mindset and behavior, the business will lose its most important competitive advantage. And if the owners fail to professionalize *themselves*, the family will lose its most important asset. Over thirty years ago, John Ward (1987), described the challenges these events create: "Only 13% of successful family businesses last through three generations. Less than two-thirds survive the second generation." Today's statistics are no better.

Entrepreneurship is a critical discipline for studying and understanding the thinking and behaviors that launch new ventures, transition them into family businesses, and transform them into family enterprises. All family businesses are founded by entrepreneurs, who find an opportunity, craft a vision, gather resources and work to create value for themselves and others (Say, 1817). In fact, early studies on family business focused on entrepreneurship because of the major role played by the founder in shaping the values and character of the family business.

Conversely, family businesses are an important aspect of entrepreneurship teaching and research at business schools, not only because they represent the majority of businesses worldwide and are a major driver of the global economy, but also because they provide long-term economic stability in local communities and individual countries. All businesses are a source of wealth and job creation, which leads to improved standards of living, but *family* businesses have characteristics – like long-term thinking, strong values, and owners who care about their family's reputation – that tend to make them more community focused than public companies. The respectful and caring culture of family businesses combined with the core value of entrepreneurship makes them a powerful economic force.

A Short Economic History of Entrepreneurship

Hunter-gatherers were the first humans to organize by kinship to "earn a living". These early working "families" practiced a Neolithic form of family business in which feeding and protecting the family were fully intertwined (Lee and Daly, 1999). They also learned to organize based on shared values about working together to protect the clan. Their culture of caring for the group allowed them to trust each other and to take more risks in exploring and exploiting new opportunities. These *founder entrepreneurs* were continually identifying new opportunities: they were the first to use fire and develop improved processes for hunting, gathering, and domestic life as they expanded from Africa to Asia and Europe. The family enterprise is the 21st century version of these early working clans, sharing values to provide sustenance, protection, and livelihoods through a wide range of activities. The behavior of a family enterprise, like that of its Neolithic ancestors, follows the classic definitions of entrepreneurship: to identify and exploit new opportunities in the surrounding environment through innovative behavior (Shane and Venkataraman, 2000).

The agrarian period once again demonstrated entrepreneurship behaviors with a gradual transition from hunting and gathering to farming based on *identifying* land as a new opportunity that could be *exploited* by planting crops and keeping animals.

The two entrepreneurial behaviors of hunting/gathering and farming overlapped for hundreds of years: some crops and animals being farmed, while others were hunted or found in the wild. Agriculture made the food supply more predictable, supported larger populations, and created surpluses that could be sold. Research on diet and human evolution shows that: “Changes in diet are routinely associated with watershed moments in human evolution – such as tool making, brain expansion, family formation, cooperation, and even increased longevity.” (Crittenden and Schnorr, 2017)

One often-neglected consequence of early entrepreneurial behavior is the impact it had on human evolution and development. The developing agrarian societies replaced human-to-nature with human-to-human relationships, demanding more complex social structures and organization (Johnson, 2000). Additionally, the early entrepreneurs saw the potential of land ownership and management as a source of surpluses and wealth creation. Social hierarchies based on land ownership replaced the egalitarian hunter-gatherers’ social ethos, which Karl Marx described as primitive communism, setting the stage for the development of modern capitalism (Scott and Marshall, 2007).

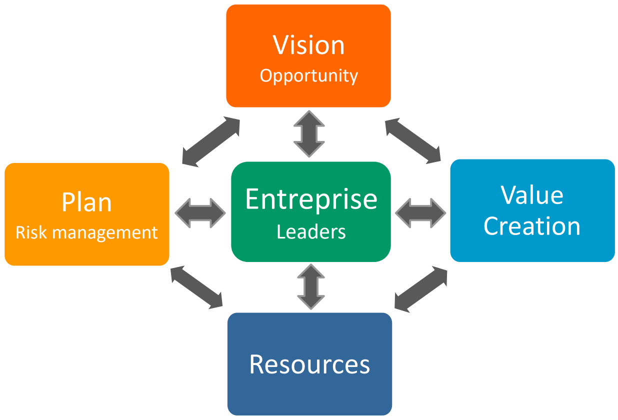
Let’s jump ahead 10,000 years to the 17th century and the mercantile capitalism that shifted wealth creation from owning land to owning a business. The mercantile period set the stage for the industrial revolution, the modern corporation, entrepreneurship (as we know it today), and our topic: family business and enterprise. Mercantilism was both a political and economic activity supported by governments through state controls and the formation of monopolies to buy and sell commodities around the world. The shift to the business of trading occurred as new markets developed in the colonies, and Northern European landowners and small farmers applied new technologies to create surpluses that could be sold. There was intense competition between nation states and their trading conglomerates like the British East India Company (founded in 1600) and the Dutch East India Company (1602), which oversaw trading activities as well as becoming instruments of military and foreign policy for their countries (McCusker, 2001).

The decline of mercantilism in the 1800s led to the development of industrial capitalism, made possible by the wealth generated during the mercantile period, which was invested in machinery and factories to produce consumer goods (Horn, Rosenband, and Smith, 2010). The industrial revolution made the *entrepreneurial* *owner* – who captured the labor productivity gains and the wealth it created – the dominant figure in the capitalist system. From the mid-1800s the UK led the world with new manufacturing processes and machinery for textiles, chemical, and iron production, leading to the use of water power and eventually the invention of the steam engine. Britain also developed new and technically advanced physical infrastructure to support transportation, manufacturing, water supply, sanitation, and housing.

The dramatic growth of the UK's economy was driven by entrepreneurial founders and families, who launched, built and owned the new ventures that eventually became the family businesses we study today. In fact many of these early family businesses still exist, whether family owned or as part of larger corporations, including: Lloyds (1765), Barclays (1690), and Coutts (1692), banking; Fortnum and Mason (1707), Harrods (1834), and Marks and Spencer (1884), retailing; Twining's (1706), Tetley (1837), and Taylors (1886) tea; The Times (1785), publishing; Rothschild Bank (1811), investment; British Gas (1812), energy; Cadbury (1824), chocolate; Clarks (1825), shoes; Boots (1849), pharmacy; Burberry (1856), clothing; and Hovis (1886), baking.

The early economic concept of entrepreneurship was described by Jean-Baptiste Say, a 19th century French political economist, who recognized entrepreneurs as organizers and leaders of the economy. The word "entrepreneur" comes from the French word "*entreprise,*" which translates literally into English as "undertaking." Figure 2.1 shows that entrepreneurs act as leaders who "undertake" new activities based on their vision of an *opportunity*, their plans to *exploit the opportunity* with minimal risk, the securing of resources, and in the end the creation of value (Say, 1817). Say's ideas are still reflected in much of the modern thinking about new opportunities and venture creation and in current entrepreneurship courses at business schools.

Figure 2.1: The Key Elements Say's Definition of Entrepreneurship



Since the industrial revolution, entrepreneurs have been the driving force for economic growth and development around the world. The Austrian-American political economist, Joseph Schumpeter, recognized that entrepreneurs supported economic growth through a process that he called "creative destruction," meaning that new ventures put mature firms out of business because they are better able to compete in new markets (Schumpeter, 1934). He argued that entrepreneurs played this significant role because of their innovative behavior. Entrepreneurship continues to be a driving force in global economic development with companies like Alibaba, Amazon, Apple, Facebook, Google, Microsoft, Tencent, and Tesla all achieving trillion-dollar valuations.

Entrepreneurship as a Teachable Behavior

A frequent question about entrepreneurship is: can you teach people to be entrepreneurial or is it innate? The obvious answer is: "Yes – the business schools are doing it." It is a behavior that takes training to practice and apply, not a personality trait you are born with. It has been taught in business schools since the 1970s and forms a growing part of the business curriculum around the world. Entrepreneurship drives the creation of family businesses because they begin their lives as new ventures launched by entrepreneurs, who then employ their relatives – and eventually the next generation assumes leadership and ownership roles.

Psychology offers us good explanations of how human talents like entrepreneurship develop. Albert Bandura, one of the world's leading psychologists, has proposed a learning model (1977) that demonstrates the three-way interaction of nature, nurture, and self-efficacy behavior. The idea is best demonstrated using the examples of three geniuses: Mozart, Darwin, and Picasso. We know they were all born with talent (nature), but they were also taught and motivated to study music, biology, and art respectively by family members (nurture). Mozart's father was one of the great music teachers of Europe and his music is reflected in countless passages "composed" by his son. It was Darwin's grandfather who first discussed evolution with the young Charles, who later did the research to prove the theory. Picasso's father was a painter, sculptor, and teacher. He specialized in still life, landscapes, and images of doves and pigeons. Pablo Picasso adopted his father's sketch of a dove to use as a symbol in his own art. These family mentors taught their younger family members to explore new thinking in their established disciplines and this thinking is what made them great. Their self-efficacy or personal motivation to see the world in new ways combined with their talent and training is what made them remarkable. The same learning model applies to entrepreneurship.

Traditionally there was limited exploration or thinking about the family's impact on entrepreneurship and new venture creation, but Aldrich and Cliff (2003) argue that "the family has implications for the emergence of new business opportunities, opportunity recognition, business start-up decisions, and the resource mobilization process." This framework suggests that the entrepreneur's family attitudes and values strongly influence the processes supporting new venture creation (i.e., recognizing opportunities, managing risk, securing resources, and planning the venture).

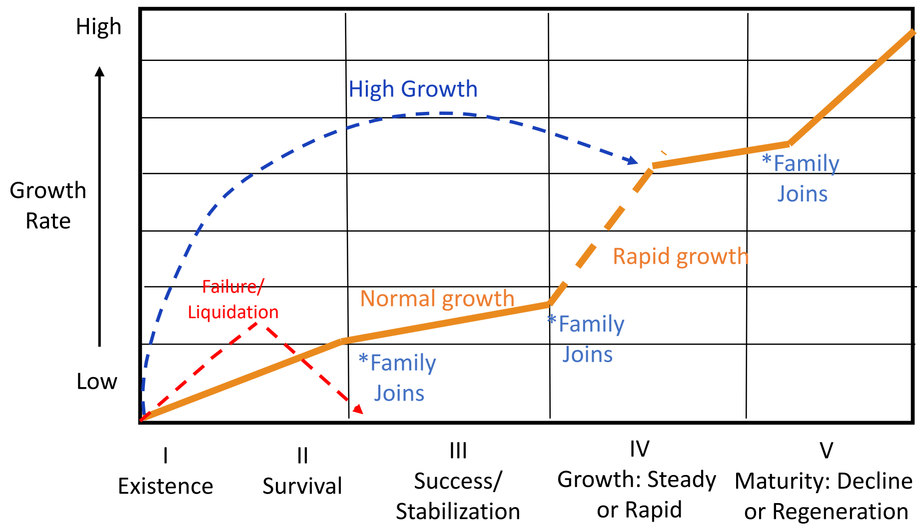
Founders certainly play an essential role in transmitting entrepreneurial values and behavior to their families by talking about their venture at home and offering their children early work experiences. An important finding from the influential book, *The Innovator's Dilemma*, is that children develop entrepreneurial skills from their parents, who act as their role models (Dyer, Gregersen, and Christensen, 2009). Motivating the next generation to think and behave more entrepreneurially is an important theme of the book you are currently reading because entrepreneurship is in the DNA of business families and, if practiced by the next generation, creates a powerful competitive advantage. We will explore the application of entrepreneurial thinking in Chapters 9 and 10, which discuss organizational strategy and family strategy respectively.

A Lifecycle Model of Family Business Development

The concept of a business lifecycle considers a firm's activities and results over time and creates a sound framework to explore the impact of family entrepreneurship on business growth and development. Churchill and Lewis (1983) proposed a model of business development that identified growth stages and the challenges and tasks faced by the firm at each stage. Figure 2.2 presents an updated version of Churchill's model, showing different growth patterns and timing across five (slightly renamed) stages: 1. Existence; 2. Survival; 3. Success/Stabilization; 4. Growth: Steady /Rapid; and 5. Maturity/Regeneration. High-growth firms like Apple, Tesla, and Google may skip stages and rocket from the Existence to the Growth Stage almost instantly. Apple became a three-billion-dollar company in less than three years. Conversely, many start-ups fail and are liquidated within the Existence Stage, while some "mom and pop" business operate for years in the Survival Stage.

The business lifecycle determines the firm's growth and profit potential and should drive the family's investment decisions. A family that controls a high-growth business would probably choose to focus their investment of family talent or capital in a growth opportunity rather than wider family enterprise activities (as described in Chapter 3). A family owning a mature business with limited future growth potential is much more willing to look at plans to sell the business, make an acquisition, or manage the business to generate cash for other investments. In other words, a mature business is a likely precursor for the family enterprise activities that this book is all about.

Figure 2.2: Five-Stage Lifecycle Model of Business Development



Adapted from Churchill and Lewis (1983) by Carlock (2000).

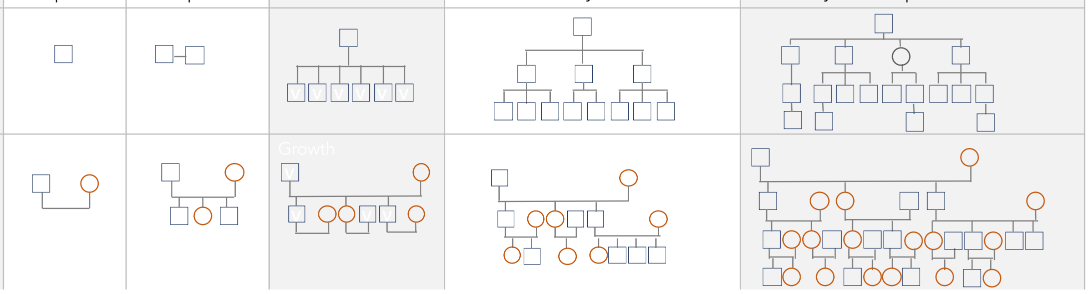
Stage 1: Existence. Most new ventures are launched by entrepreneurs who see founding and owning their own venture as fitting their personalities, career intentions and lifestyle (Gartner, 1985). A new venture is a high-risk proposition. Its success depends on the founder's creativity in identifying an opportunity, securing resources, and developing a plan. Founders are usually transactional leaders focusing on day-to-day activities with a quick payback (Bass, 1985). Their goal is to win customers or clients for their product or service in order to reach Stage 2: Survival. The critical success factors at this stage are the entrepreneur's control and determination to achieve success, although they may be teaching others to operate the business (and may continue to do so throughout the next two lifecycle stages as well).

Occasionally, family members will start a business together, but most family businesses develop when family members join the founder as employees, and eventually ownership is shared. The new venture can become at family business at any stage but it is most likely at Stages 3, 4, and 5 because the business is successful enough to support more people and requires additional management talent to support further growth.

Stage 2: Survival. By now, the venture has customers and hopefully positive cash flow, even if it is not making a profit. The critical activity is marketing products or services with the goal of achieving increased market share, thereby improving cash flow and eventually profits. A firm in this stage of development must add employees and develop basic systems to support sales growth and operations. Again, the founder's entrepreneurial tendencies (such as a need for achievement and autonomy) drive the employees, creating a sense of urgency and passion that overcomes obstacles and leads to a stable firm.

The end of Stage 2 marks the entrepreneur's shift from managing the venture to managing employees, who may support or even replace the founder in some activities or tasks. The owner-manager's day-to-day responsibilities and direct influence decline (see Figure 2.4: dashed black line) because there is now a sales manager who takes responsibility for sales, a role that did not exist when the founder set up shop. It is a natural pattern for the owner-manager to transfer responsibility to others in order to focus on the longer-term concerns of strategy and managing for future growth and profitability.

Figure 2.3: The Family Business Life Cycle and Characteristics

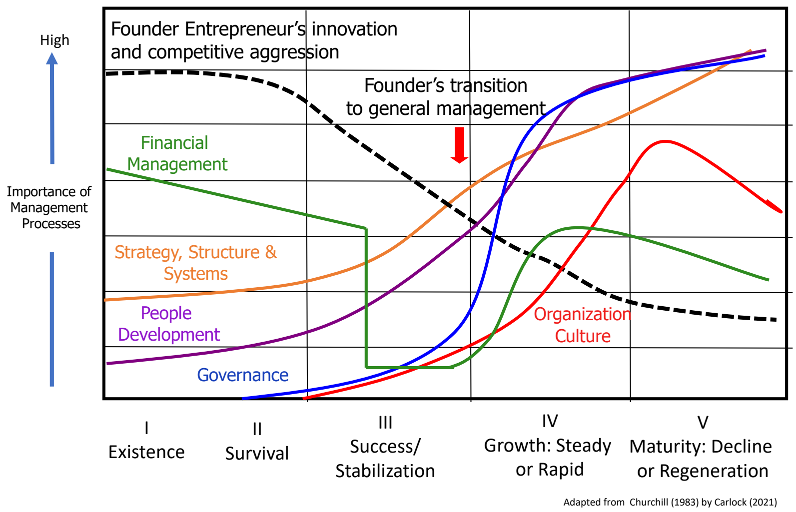
Stage	Existence	Survival	Success/ stabilization	Growth Strategy: Steady or Rapid	Maturity: Decline or Regeneration
Family Generation	G1 Founder	G1 Founder & Spouse	G1 & G2 Parents/Sibling	G2 Sibling Partnership	G2 & G3 Cousins Collaboration
Leadership	Owner-entrepreneur	Owner-manager	Founder CEO	Next CEO – Entrepreneurial Leader	Family/non-family C-Suite
Business Challenge	Win customers	Build Sales Cash flow	Grow market share	Steady or rapid growth and professionalization	Founder retires, enterprise model Regenerate legacy business
Family Challenge	Support founder	Work-Life balance	Next generation participation	Prepare qualified leaders and owners for succession	Multi-generations and growing numbers
Governance	Owner-entrepreneur	Owner-entrepreneur	Owner/friends/ advisor board	Functional board Owner, family and advisors	Professional board Family and independent directors
Organization Structure					
Family Genogram					

Many businesses will remain in the survival stage for years, providing an income for the owner-managers but never becoming successful and stable businesses (Stage 3). Such survival-stage firms will earn only marginal returns on invested time and capital but may still manage to sustain whole families. They will eventually go out of business or the assets will be sold, when the owners give up or retire (see “failure/liquidation” shown in red in Figure 2.2). However, there are cases where the next generation has taken over and built a successful family business on a parent’s struggling venture.

Stage 3: Success/Stabilization. Success marks a critical point in the venture’s lifecycle, as the firm becomes profitable and provides a stable financial return for the owner. At this stage the owner-manager must make a decision whether to pursue rapid growth or to maintain the business on a steady path. There are employees and basic systems in place, so the founder-manager can take a step back and consider the risks versus the returns involved in investing in higher growth. The decision will determine the owner-manager’s future career, lifestyle, and wealth. This is a stage where the founder may first think about harvest strategies, such as selling the business or inviting family members to join as successors.

Stage 3 also marks the professionalization of management, strategy, organization, and governance as the founder’s role evolves (see Figure 2.4). The founder continues to drive the firm’s entrepreneurial culture but using processes and empowering other executives to take over the management responsibilities. This is a great opportunity for family members who have completed their education and gained sufficient work experience to join the firm as executives.

Figure 2.4: The Business’s Need for Professionalizing Management at Different Stages of Development



Stage 4: Growth. Churchill and Lewis (1983) define this as “the big time”, meaning that the firm has potential for even greater growth than before. If founders choose the *steady growth* strategy, they focus on profitability, and maintaining the existing business model with no major changes in the strategy or financial structure. Meanwhile, steady growth allows the owner-manager to explore other business and lifestyle options and to continue owning and profiting from the business with minimal investment of financial or human capital. Many firms stay profitable in this stage for long periods by focusing on efficiency and expense control. In other firms, the owner-manager’s goal becomes new investments and diversification. In yet another category, it can be a logical time to begin the transition to a next-generation-managed business.

The *rapid growth* option entails the challenge of crafting a more hard-hitting strategy and committing to becoming (or hiring) an entrepreneurial leader to professionalize and lead the firm. Rapid growth is predicated on transitioning the organization and its strategy to support increased complexity. There is nothing more dangerous than rapid growth in a firm operated with informal management structures and processes. A high-growth strategy requires increased financial capital to hire experienced executives, build new or larger facilities, and secure more inventory or equipment. It also means that the business needs to fully professionalize key processes like governance, information technology, finance and control, and human resources. As in the case of the steady growth path, this stage can be a logical time for capable next-generation family members to join the business, strengthen the executive team, and prepare for future leadership, governance, and ownership roles.

Stage 5: Resource Maturity. When businesses reach this stage, the growth rate flattens as their markets mature and become more competitive. This is the stage where innovation and long-term investment are required to sustain growth. It is also the time to identify new opportunities, such as emerging markets, new technologies, or mergers and acquisitions. These strategies require the support of entrepreneurial owners working with a capable CEO and board to craft a well-developed business strategy. As we have seen, the successes of Stages 3 and 4 will often stimulate interest in and conversations about family participation and eventual transitions in management and ownership roles. A successful business with an experienced owner-CEO has many possible options, including selling the company, taking it public, a management buyout, a private equity transaction, or working with family members to create a family business.

Creating a Family Business

The founder's lifecycle interacts with the business's lifecycle, as the founder matures and recognizes the need to explore capturing the value created by the maturing business. While there are many options, like selling or going public, only one action meets *both* the founder's financial goal of securing economic value *and* the emotional need to maintain control or at least stay engaged: transferring the business to the family's next generation. The original venture was launched and built by the founder's passion and struggle and his or her identity is strongly tied to the business. Throughout the firm's early growth, it was clear that "without the founder the business was nothing". Thirty years later when the founder is 60+ their unspoken fear is that "without the business they are nothing".

Passing ownership to the family ensures the owner's continued connection and relationship with the family business. It also secures the founder's and the next generation's future, is tax efficient in most countries, and protects business continuity. Above all, family ownership allows the family to regenerate the legacy business while setting the stage for launching a family enterprise with new activities, such as philanthropy, financial investments, and new social and for-profit ventures. Some founders even transfer their legacy business to family members and then launch a new venture or other investments for themselves. The options for family entrepreneurs are limited only by the family's talents and commitment to work together. The family enterprise model creates an opportunity to spread entrepreneurship values across the generations in new activities, with seniors serving as mentors and supporters for younger members' ventures and activities. It is a powerful tool to build and sustain the family's identity, develop stronger family ties and forge exciting next-generation careers (Berrone, Cruz, & Gomez-Mejia, 2012).

Evolving into a Family Enterprise

While we all recognize the importance of the founder entrepreneur, many people fail to appreciate that founding a new venture is only the first step and that the most dramatic growth and success often comes later, as a result of entrepreneurial leadership and ownership. The family's entrepreneurship is expressed in different ways as the business grows and family matures. First, the entrepreneurial founder launches a new venture; second, the next-generation entrepreneurial leader transitions the venture into a professional family business; and lastly the entrepreneurial owners create new activities that transform a single-family business into a family enterprise. It is the founder who creates a new venture, but entrepreneurial leaders and owners who secure its continued success. Figure 2.5 compares these three stages of family entrepreneurship.

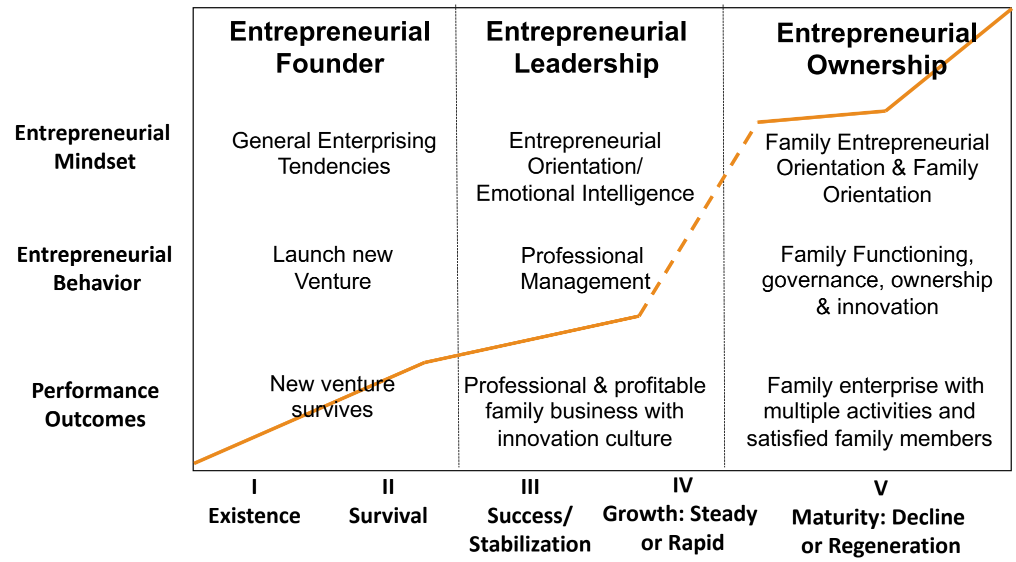
Figure 2.5: Comparison of the Three Family Entrepreneurship Roles

	Entrepreneurial Founder	Entrepreneurial Leader	Entrepreneurial Owner
Leadership style	Day-to-day - Transactional	Professional firm - Transitional	Enterprise - Transformational
Strategy	Situational/adaptive	Strategic/medium term	Stewardship/longterm
Business Strategy	Survive/stability	Build/grow	Regenerate/sustain
Vision	Launch venture	Professionalize firm	Launch the enterprise
Communication	Command	Symbolic	Personal
Teams	Majority of one	Skills/Hierarchy	Family/Professionals
Focus	Venture	Organization/strategy	Family/owners

Managing growth and change across three "different" businesses means that the entrepreneurial behaviors at any one time must reflect the current lifecycle challenges experienced by the business and key family members. I have defined three family entrepreneurship roles based on recognized entrepreneurship models: the founder role is defined by "General Enterprising Tendencies" (Caird, 2013); the entrepreneurial leadership role is defined by a combination of "Entrepreneurial Orientation" (Lumpkin and Dess, 1996) and "Emotional Intelligence" for leadership thinking (Goleman, 1995); and the entrepreneurial ownership role is defined by "Family Entrepreneurship Orientation" (Zellweger, et al., 2012) and Family

Orientation (Lumpkin, et al., 2008). The discussion below explores the contribution of family entrepreneurship roles in creating a family business that evolves into a sustainable family enterprise. Figure 2.6 superimposes the evolution of these roles onto the five stages of the business lifecycle.

Figure 2.6: The Evolution of Family Entrepreneurship Roles Across the Business Lifecycle



The Entrepreneurial Founder

The founder (Stages 1 and 2) creates a venture that reflects one person's intentions, education, personality, and business experience. The firm's structure and dynamics are informal, with all of the employees reporting to the founder. These informal relationships and close social interactions support wider commitment to and identification with the entrepreneur's dream. Founders are driven by *General Enterprising Tendencies* (entrepreneurial mindsets) that support the creation of new ventures (Caird, 2013). Caird defines the five founder characteristics as follows and insists that they can be learned through education, role modeling, and life experience.

- **Autonomy**: Independence, strong self-expression, individualism, leadership orientation, determination.
- **Creativity**: Imagination, intuition, change orientation, versatility, curiosity.
- **Calculated risk taking**: Decisiveness, self-awareness, ability to analyze but also to act on incomplete information, goal orientation
- **Locus of control**: Opportunism, self-confidence, self-belief, proactivity

- **Achievement**: Future orientation, self-reliance, optimism, task orientation, restlessness, persistence, willingness to work hard.

Founders lead by "taking charge". Their credibility comes from having launched the firm. People follow them because they are visionary, they are "the boss", and because they believe that they will share the leader's success and the rewards that follow.

The Entrepreneurial Leader

The entrepreneurial leader is the founder's successor. Their main challenges are to replace the founder and to transform the firm from a successful start-up into a professionally managed business that maintains its original commitment to innovation. The concept of entrepreneurial leadership was developed by McGrath and MacMillan (2000), who argued that, in growing markets or dynamic firms, traditional "professional" management is not able to exploit the opportunities, while founders often lack the skills or interest to build and professionalize the organization. The entrepreneurial leader combines entrepreneurship thinking with leadership behavior to transform the firm faster than the founder or the "professional" manager, who are both transactional leaders focused on day-to-day activities for improving performance (Ghasabeh, Soosay, and Reaiche, 2015).

The entrepreneurial leader must sustain the firm's innovation culture using an Entrepreneurial Orientation (Lumpkin and Dess, 1996) that reflects an updated version of the founder's mindset appropriate for the more complex and growing firm. Entrepreneurial Orientation attributes are not a part of every entrepreneurial leader's thinking or behaviors, but most exhibit some combination of the following.

- **Managing risk:** Seeks information and control to manage risk.
- **Competitive aggressiveness:** Is motivated to lead, succeed, compete, and perform.
- **Autonomy:** Is independent, driven, and likes to be in charge.
- **Proactivity**: Believes in one's capacity to exert control over one's own motivation, behavior, and social environment.

- **Innovation:** Sees the future in different ways and believes one's destiny is based on new insights and hard work.

Entrepreneurial leaders cannot perform every task facing the firm like founders. They must challenge and empower their employees to complete tasks on their own. The entrepreneurial leader's challenge is to win the commitment and support of the founder, family, employees, and other stakeholders to support a new vision of the firm. As Bill Campbell (Steve Jobs' coach) stated, "Your title makes you a manager; your people make you a leader." (Schmidt, Rosenberg, and Eagle, 2019)

Entrepreneurial leaders must also focus on meeting their stakeholders' emotional needs (Goleman, 1995). Growth, especially high growth, requires leadership skills to transform the firm into a professionally managed and innovation-driven organization. The leader's role is to understand different peoples' perspectives, ask their advice, and acknowledge their thinking to align the founder, family, board, and organization around his or her vision. The CEO may have the final say, but successful leaders know that using your authority loses peoples' commitment. As John Quincy Adams, the sixth U.S. president (and, incidentally, the son of John Adams, the second U.S. president), said: "If your actions inspire others to dream more, learn more, do more and become more, you are a leader."

Entrepreneurial leaders therefore require a high level of Emotional Intelligence (also known as EQ), which includes the following characteristics.

- **Self-awareness:** Individuals with high levels of EQ monitor themselves and what they are feeling to understand how they impact others.
- **Self-regulation:** It is important to control and manage your impulses and emotions by listening without judging, encouraging others in difficult activities, and giving genuine recognition.
- **Internal Motivation**: Being driven by your values and vision leads to sustained motivation, clear decision making, and action.
- **Empathy**: Acknowledging other people's feelings, recognizing other people's needs and concerns, and reacting to their emotions supports the development of relationships.

- **Social Skills.** Goleman describes these as "friendliness with a purpose", meaning that everyone is treated politely and with respect, gratitude, and personal interest.

Peter Drucker, the management guru, captured the entrepreneurial leader perfectly:

> A business that wants to be able to innovate, wants to have a chance to succeed and prosper in a time of rapid change, has to build entrepreneurial management into its own system. It has to adopt policies that create, throughout the entire organization, the desire to innovate and the habits of entrepreneurship and innovation. To be a successful entrepreneur, the existing business, large or small, has be managed as an entrepreneurial business."

The Three Stages of Family Entrepreneurship

Before introducing the characteristics of the entrepreneurial owner, I shall stop to tell a story. The three-part case study below describes the classic tale of Steve Jobs: founding Apple and NeXT, then failing as an entrepreneurial leader at Apple and NeXT before returning to Apple and succeeding. Returning to Apple, Steve was an outstanding entrepreneurial leader but it was working as an entrepreneurial owner that made Apple the world's most valuable company and made Steve Jobs, arguably the most famous business leader of all time. This story is not about a family busines, but it contains one of the most important lessons in this book for every aspiring family-business leader: founders start firms, entrepreneurial leaders professionalize firms but it is generations of entrepreneurial owners that make them great.

Steve Jobs Part 1: The Struggles of an Entrepreneurial Founder

During his life, Steve Jobs held many roles: Founder, CEO, visionary, creator, leader, teacher, coach, husband, father, brother, friend and entrepreneur. But of all his titles, the one that speaks the most volumes to people everywhere is: entrepreneur. Steve Jobs was indeed a great founder entrepreneur, but he was also an entrepreneurial leader and owner. When Steve initially failed in transitioning

Apple from a successful start-up into a high-growth firm, he was fired by the board. He failed precisely *because* he was an entrepreneur, who wanted to recreate his success of building great products like the Apple II with the MAC rather than building a great people and an organization that builds great products. Jobs was like many family business founders who struggle with their need to achieve, control and be in charge. Yet, in the end Jobs not only saved and transformed Apple but also set the company on a trajectory to even greater success after his death. How did this come about?

Jobs' first effort after leaving Apple was to try and recreate his previous success with the Apple II and Macintosh by founding a new start-up practicing the General Enterprising Tendencies he knew so well: control, autonomy, creativity, and striving to achieve success. He named his new company and product "NeXT Computer" because his personal aspiration was to create *the next* breakthrough computer product – to out-Mac the Mac. The NeXT Computer was a workstation targeting the higher education and professional markets. It was a revolutionary product in terms of design and technology and even marketing. Many people happily paid $100 to attend its sales launch for a sales pitch and demo.

Unfortunately, not enough people were happy to pay $6,500 for the product (equivalent to almost $15,000 in 2021). It was too expensive for the target market of universities or even financial institutions, designers, scientists, and government agencies. This failure became a turning point for Jobs because it refocused his efforts on a small animation start-up Pixar, which he also owned. The company had its breakthrough product, which was computer-aided animation, but needed to become a professional organization capable of continuous creativity: an organization built around institutionalized innovation, risk taking, individual initiative, teamwork, talent, and creativity.

Pixar is where Jobs' started his journey to becoming an entrepreneurial leader. Founders usually learn and practice entrepreneurship without having to think about it. That experience started for the young Steve in his father's garage, where he learned quality and design and continued throughout his time at Apple. Luckily for him, Pixar was beyond this first stage of founder-entrepreneurship. It had two founder entrepreneurs to lead Pixar animation technology but needed an entrepreneurial leader to build Pixar the company.

Jobs had bought Pixar in 1986, more as a technology investment for new computer applications than to make animated films. But after he was fired from Apple and NeXT failed, he began a mentoring relationship with Pixar's founders, Ed Catmull and John Lasseter, that would last until his death in 2011. His time at Pixar had a big influence on Jobs because he learned about the entrepreneurial leader role and practiced it at Pixar with Lasseter and Catmull as his "coaches".

Jobs' idea of entrepreneurship had always been driven by product design, technology, and marketing, not the organizational dimensions of talent development, empowerment, or culture. At Pixar the founders were driving the product, so Steve focused on Pixar the organization. He developed strong teams, a collaborative culture, and processes to keep highly talented people engaged and motivated.

In the past, Jobs' leadership had been energized by his self-image and ego, not by a coherent model of psychology. His experience was all about ignoring rules (autonomy), micromanaging (control), and being a perfectionist (achievement): all strong entrepreneurial characteristics but counter-productive in the entrepreneurial leadership challenge of professionally transitioning an organization. Jobs' growth as an entrepreneurial leader became clear after he learned to shed his reputation as a micromanager. As Catmull shares: "He never micromanaged at Pixar, never told us what to do technically or even what went in the films" (Garrahan, 2014). Jobs focused on how creative people work together as he oversaw the design of Pixar's campus-style headquarters. The main building is named after him. Of course, Jobs' attention to detail remained legendary, as did his irascibility. But Catmull says he also revealed a capacity to change: "I think there are misconceptions about Steve which have been colored by his earlier behavior" (Garrahan, 2014).

As Lasseter and Catmull noted after Jobs died in October 2011: "Steve took a chance on us and believed in our crazy dream of making computer-animated films;

the one thing he always said was to simply 'make it great.' He is why Pixar turned out the way we did and his strength, integrity, and love of life has made us all better people. He will forever be a part of Pixar's DNA."

Let's set the stage for Steve Jobs' return to Apple. In 1997, Apple was a disaster, facing financial collapse after quarters of bad results and three "professional" CEOs who all lacked the entrepreneurial leadership mindset or behaviors to rebuild the organization and regenerate its strategy. At the time Michael Dell, the founder of Dell Computer, famously said, that if he were in Jobs' shoes, he'd shut Apple down and return the money to the shareholders. It has been said by many analysts that, but for Jobs' return, Apple would not even exist today.

Steve Jobs Part 2: The Success of an Entrepreneurial Leader

When Steve returned to Apple he fully realized that new products would be 12 to 18 month down the pipeline so he focused on Apple the organization. Jobs set about empowering individuals and teams to recreate the entrepreneurial spirit that he and Steve Wozniak displayed in 1976 with the Apple II – only in a larger and mature organization. Steve knew that a founder-entrepreneur is a doer (like he was in 1976) but that Apple now needed an entrepreneurial leader who was teacher and coach and whose challenge was creating leaders and teams to build innovative products.

Steve had also learned that great technology companies need great people. He explained the apparent contradiction this way: "Technology is nothing. What's important is that you have faith in people, that they're basically good and smart, and if you give them good tools, they'll do wonderful things with them." Jobs' strategy for Apple was also elegant in design and defined by the letter "i" meaning Internet, individual, instruct, inform, inspire and interim CEO because Jobs refused the CEO title appointment, preferring to be "Interim" CEO because he never wanted to be fired again. His employees soon changed the last i to mean "indefinite" because they were convinced that no one else could ever run Apple.

In 1998, Steve's first "new" product after returning to Apple represented innovation, not new technology. The iMac was a reworked iMac G3 that was different from any other personal computer ever produced because it came in five hot flavors: orange, strawberry, blueberry, lime, and Bondi blue. The soon-to-be legendary iMac G3 also made the statement that Apple tech leadership was back because it introduced industry changing updates like a sleeker design, fan-less operation, the option of wireless networking and it abandoned legacy technologies like the floppy disk and serial ports in favor of Universal Serial Bus. But the gamechanger was the colors, look, and feel that made people want to touch it, to own it. The marketing and sales success of the iMac G3 contributed to a turnaround from financial ruin in the late 1990s and revitalized the Apple brand as a design-oriented company that knew what consumers wanted.

Figure 2.7: Apple iMac G3 in Bondi Blue

Steve took this as his biggest challenge and set about turning the company into a learning organization by creating the Apple University and then personally identifying and developing a new leader to replace him (long before he had any health issues). He had to work hard to convince Tim Cook to join Apple but finally after turning the position Cook joined. Steve then guided Cook's progress to becoming the next Apple leader, which could not have been easy after 13 years at IBM, where Cook had specialized in logistics and supply chains. Jobs not only mentored him but planned his career through a series of ever-larger responsibilities and entrepreneurial experiences.

Perhaps Walter Isaacson (2012) near the end of Jobs' life captured the secret of Steve's entrepreneurial leadership best, when he asked Jobs what he thought was his most important creation, thinking he would answer the Apple II, the iPhone or the Macintosh. Jobs' reply came without hesitation: "It was Apple the company. Making an enduring company, he said, was both far harder and more important than making a great product". This is classic entrepreneurial leadership, focused on professionalizing the organization and empowering its future leaders. These are activities that many family business founders and next generation leaders around the world struggle with – and need to pay more attention to.

Steve Jobs Part 3: The Success of an Entrepreneurial Owner

Jobs' final entrepreneurial role at Apple was ownership: he owned Apple socially through his personal identity, financially as shareholder, and psychologically as steward of Apple's future. It would be easy to argue these strong motivations were linked to his illness and impending death, but Steve had always been emotionally connected to the companies he was leading. Many of the behaviors he demonstrated at Apple in his final months had been practiced years before at Pixar, where he carefully stewarded the development of Pixar's culture and built its state-of-the-art headquarters.

Steve's last public act at Apple, a few weeks before his resignation, was arguing before the Cupertino City Council for permission to build the iSpaceship, the new Apple Headquarters. The new Apple corporate campus on 150 acres of land had once housed Hewlett-Packard. This location had special meaning to Steve because William Hewlett, the co-founder of HP, had allowed Steve to work there when he was 13 years old (even though he was below the minimum working age). Steve always believed that the HP he knew – and that had created the Silicon Valley – was lost because the company's decentralized structure had killed the innovation you only get when people work together to share ideas.

Jobs's affinity for aesthetically pleasing designs and attention to detail were evident in the proposal that he laid out. The new office would be a round, four-story building with a futuristic design and not "a single straight piece of glass". Jobs believed that the culture, the people, and the workspace needed to interact constantly to sustain Apple's culture of innovation. His dream was of an Apple campus that would restore the apricot orchards and he hired an arborist from Stanford University to replant trees and plants indigenous to the Bay area. Jobs also had a vision of a building powered entirely by renewable energy – and one of the most energy-efficient in the world. Jobs was quoted as telling the Cupertino City Council: "We have a shot at building the best office building in the world."

It turned out to be his final public appearance before his death in October 2011,

In many ways Tim Cook and Steve Jobs had a "father-son" relationship and it was demonstrated by their "family business" leadership transition. Sustaining Apple for the long term was the Jobs vision – just like that of many long-lasting family businesses and enterprises. Professionalizing a successful venture can be a challenge for founders and entrepreneurial leaders because they are proud of what they have built and their leadership style is about personal achievement not developing others. But by focusing on others and sharing their values, by encouraging the development of talent, and by inculcating respect for the contributions of others, entrepreneurial owners can ensure that the next generation is ready and motivated to make a significant contribution to the organization's future.

The Jobs legacy is tied to his life-long struggle to sustain a culture of innovation at Apple. Talent development was his passion, but not *academic* training based on standard management skills. Instead, the Apple University teaches what could called the "Apple Way" of thinking and behaving, all focused on a culture of innovation. When Jobs stepped down, Cook said jokingly that he was "prepared but not ready" because, whenever the time to lead happens, you can never be ready. He added, "That's OK."

It was OK because Jobs had mentored Cook for a decade and trained the management team to support him in making Apple the most valuable company on earth. At the time of writing, the company is worth almost four times more than on the day Jobs died.

The mark of an entrepreneurial owner is how well the organization performs after they step down. At his funeral Steve was celebrated for co-founding Apple and leading the greatest corporate turnaround in U.S. business history. He was eulogized as a visionary and a creative genius. But the tributes from the two Apple employees who knew him best never mentioned Apple or his personal achievements –Tim Cook simply said: "He was a great teacher. He was one of the best mentors in the world." Apple's designer, Jony Ive, was even more minimalist, describing Jobs as "my teacher". What they valued in their relationship with Jobs was his entrepreneurial ownership – his ability to prepare *them* to be better leaders when he was no longer there.

The entrepreneurial hero is America's greatest business myth and Steve Jobs checked every box. A child of immigrants, adopted as young boy, raised in a modest home, a college dropout, he wanders in India, launches a successful start-up, takes it public and becomes rich, only to be fired by the board, returning to the wilderness, starts another company that fails, but in the end prevails because he learned that he was more than a founder-entrepreneur – he was an entrepreneurial leader and owner.

Entrepreneurial Ownership

The last – and least acknowledged – role of family entrepreneurship is ownership. Entrepreneurial owners are powerful because they contribute over generations. They represent a strong sense of stewardship for the family and its economic and social activities; they train and select the next family leaders and owners; they have psychological ownership; they work on long investment horizons; and they influence the business and enterprise strategies. CEOs, senior executives, and boards have powerful individual roles but with limited terms. Family owners work collectively with other family members, hold a lifetime ownership, and share the ultimate responsibility for every success and failure – both financially and emotionally.

Owners play a significant role in the business as it matures and enters Stage 5 of the business lifecycle. At this stage there are three options for a family firm:

1. Developing a new business strategy based on innovation, regeneration, and large capital investment;
2. Creating a family enterprise and redeploying assets for new activities or investments, which usually means reducing the amount of resources available for the legacy business;
3. Harvesting the legacy business to create liquidity for new investments.

Only truly entrepreneurial owners can drive innovation strategies for the legacy business or the creation of a family enterprise model to exploit new opportunities and foster continued long-term growth. Otherwise, harvesting is the only option.

Entrepreneurial ownership has to be understood at two levels: the Family Entrepreneurial Orientation (mainly for the business) and Family Orientation (mainly for the family). In our discussion of the characteristics required to be a strong entrepreneurial owner, we will use socio-technical thinking to examine these two orientations.

- The Family Entrepreneurial Orientation takes an economic view of the family's activities and how the results impact the family's wealth.
- The Family Orientation lens provides a social view of a family's relationships, and this creates socio-emotional meaning in its members' lives.

The combination of these two orientations is about value creation: economic, socio-emotional, human and spiritual.

The Family Entrepreneurial Orientation (FEO) addresses economic value creation based on business and economic performance. These factors shape family owners' entrepreneurial mindsets and attitudes to their business. Entrepreneurial owners intentionally make entrepreneurial thinking a part of their strategic planning.

Zellweger, Nason, and Nordqvist (2012) define Family Entrepreneurial Orientation through the two following behaviors.

- **Family Innovation:** The family takes risks to support innovation processes and activities.
- **Family Transgenerational Entrepreneurship:** The family works to create value for future generations by changing the legacy business or creating new opportunities elsewhere.

Family owners with an FEO mindset drive organizational innovation or new enterprise activities with a long-term commitment to investing in the family business or enterprise (Lumpkin, Brigham & Moss, 2010). Entrepreneurial owners use the family's control and influence to encourage a culture of innovation and risk-taking, supported by professional ownership and governance processes. Family members are typically active owners and capable directors, working in partnership with a professional CEO and management team (some of whom may also be family members). Their role as owners is to support business culture based on long-term thinking that enables and encourages the management to pursue or exploit new opportunities and strategies.

However, Rogoff and Heck (2003) note: "The growing body of research points to the fundamental guiding principle that the combustion of entrepreneurship cannot ignite and grow without the mobilization of family forces." Hence the importance of Family Orientation, our second dimension of multi-generational family entrepreneurship.

Family Orientation acknowledges the value that individual family members place on being a part of the family. A powerful outcome of owning a family business is the sense of identity and belonging that members gain from being part of a business family. These socio-emotional connections engender feelings of trust and security among individual family members that support long-term relationships and collaboration (Lumpkin, Martin, & Vaughn, 2008).

The Family Orientation model does not necessarily assume that the family owns a business. Instead, it describes an individual's relationship to his or her family. However, Family Orientation strongly influences an individual's vision for, investment in and contribution to a family business. The five Family Orientation characteristics proposed by Lumpkin et al. are as follows.

- **Tradition:** A shared history and legacy are part of all transgenerational family system, creating a shared understanding of roles and responsibilities.
- **Stability:** A critical idea for understanding family systems is homeostasis or predictability, which implies a resistance to change. Families tend to maintain a balance with rules of behavior and clear boundaries.
- **Trust:** Families are about expectations and willingness to support each other fairly. Trust is the basis for building a commitment to working together for mutual benefit.
- **Loyalty**: Another critical value for building commitment and a sense of working together for a shared family vision.
- **Interdependency**: Family systems are by definition interdependent. Interdependencies are the building block family of family connections and cohesion.

Family Entrepreneurship Orientation and Family Orientation, together identify the mindsets and behaviors required for entrepreneurial ownership. All too often, I encounter business families who fail to recognize the long-term impact of ownership and how, as owners, they directly affect the business's future by selecting board members, influencing strategy and risk taking, providing the financial capital to support growth or regeneration, and monitoring performance. New ventures are successful in Stages 1 and 2 of the business lifecycle because of capable founder-entrepreneurs who launch a new venture and make it stable for future growth. It is usually, second-generation family or non-family entrepreneurial leaders who grow and professionalize the firm in Stages 3 and 4 and prepare the way for entrepreneurial owners, who use their long-term view of family investment and control, innovative strategies, committed family and stakeholder relationships to sustain the family enterprise through Stage 5.

An examination of long-lasting family businesses like Antinori Wine, BMW, Cargill, Hoare Bank, Hoshi Ryokan, Kikkoman, LVMH, Walmart, Wates Group, and Volkswagen reveals that it is not the founder or even entrepreneurial leaders who sustain the firm's success; it is committed and entrepreneurial family owners. These are the family members who drive entrepreneurship based on new opportunities, activities and investments beyond the legacy family business. In Chapter 3, we will encounter the entrepreneurial owners of a legacy business, who are also running new social and for-profit ventures, sitting on the boards of these entities (and/or on the board of the legacy business), active in their family office, and supporters of philanthropy and community service.

For now, however, we will finish this chapter with the story of another family firm, Marriott International. Our case study starts with the next-generation successor becoming an entrepreneurial leader. He takes his parent's two motor hotels, grows them into a national chain, and then – as an entrepreneurial owner – expands the family business to become the largest hospitality group in the world. The greatest achievement for many family businesses is not their founding but their success and growth under the next generation, as entrepreneurial leaders and owners. Bill Marriot is a remarkable example of this phenomenon – and proof that a family's entrepreneurial spirit is sometimes most important legacy passed down through the generations.

Marriott: From Entrepreneurial Leadership to Entrepreneurial Ownership

Marriott Corporation was founded by John and Alice Marriott in 1927 as a drink stand selling A & W root beer. It later expanded to become a chain of Hot Shoppes restaurants that went public in 1953. The company opened its first hotel, the Twin Bridges Marriott Motor Hotel in 1957. Its second, the Key Bridge Marriott, is Marriott International's longest continuously operating hotel and celebrated its 60th anniversary in 2019. The founders first expanded by exploiting the trend of people eating out on a budget, but their real breakthrough came when they seized the opportunity to open a hotel just off the newly built U.S. interstate freeway network.

However, all that was just a small step towards the global corporation everyone knows today. The modern Marriott International was built by the founders' son, Bill. During a career of more than 50 years, he led the company to become the world's largest hotel chain with 30 brands and around 7,000 properties in 131 countries. The senior Marriotts were the founding entrepreneurs who identified the first opportunity to build easily accessible motels near the new freeways, which their son exploited to grow into a national brand. Additionally, it was the son's continuous identification of new hotel opportunities that grew the family business into the global leader it is today. Bill Marriott's opportunistic strategies included: buying the Ritz-Carlton chain from bankruptcy and creating a luxury group of 101 hotels in 30 countries; starting a new housing venture for seniors, Senior Living Services Communities; and creating a timeshare brand, the Marriott Vacation Club.

The acquisition of Starwood is a powerful example of entrepreneurial ownership by a next-generation family leader. Ten years after stepping down as CEO, Marriott acting as an owner, continued his entrepreneurial pursuits by acquiring the Starwood Hotels and Resorts for $13.3 billion. The senior Marriott summed up entrepreneurial ownership in a recent interview when he described a discussion with the corporation's non-family CEO about the acquisition: "You know, we're in a great position. We've got about $2 billion of free cash flow every year, which we're using to buy our stock back and pay dividends and I said we just keep continue rolling along. 'We're doing fine.' And then I got to thinking about how through the years I've preached the adage that success is never final. Here I was taking the position that my success is final and I don't need to do much more – you're not listening to the adage you've been putting out all these years. So, I said, 'Well, I think we ought to do this.'"

Bigger than any of Bill Marriott's previous ventures or acquisitions, acquiring Starwood completed his vision of dominating the global hospitality market. "Overnight", Marriott became the world's largest hospitality company.

Marriott's strategy for the last 50 years has been driven by classical entrepreneurial thinking: combining exploration for new opportunities with exploitation of the core businesses – all driven by the growing global demand for travel. This ambidextrous strategy simultaneously improves the firm's efficiency (March, 1991) as well as supporting the participation of new generations, creating shareholder value and sustaining the family's legacy of entrepreneurship. It also supports the goal of the founders, the next generation, and the family to build a more balanced portfolio of businesses, utilizing the family's social capital and investing and maintaining the family's human and financial capital in one entity. Would any of us have heard of Marriott Hotels if it still had two locations outside of Washington, D.C.?

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