

## **Intergenerational entrepreneurship in family businesses: A wine industry perspective**

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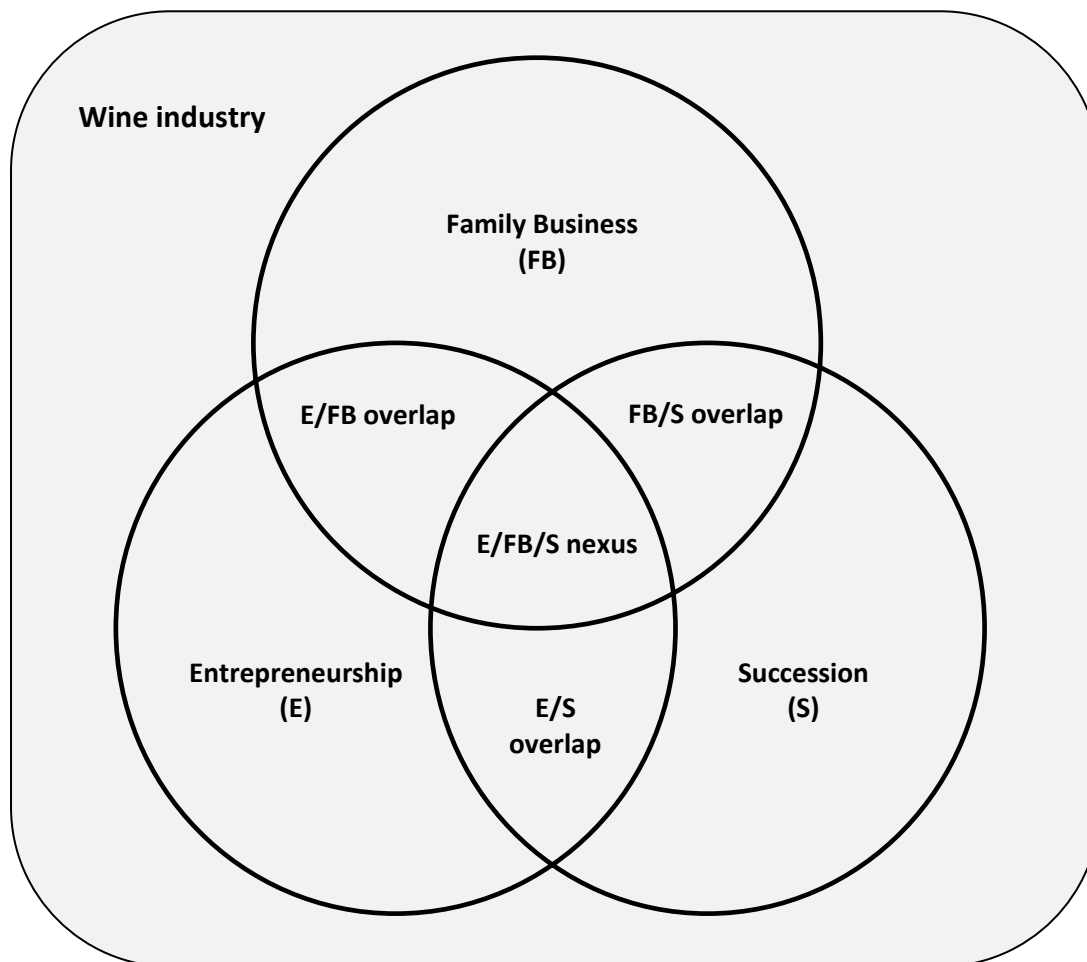
This research aims to examine how family businesses ensure that entrepreneurial activity continues across generations. The intergenerational transfer of the vision and purpose of a family business and the extent this translates into entrepreneurship in subsequent generations will be critically examined. The setting for the research is the winegrowing industry, specifically, medium sized wineries with at least two generations currently owning and managing the business. The objectives of this article are to provide an overview of the current research while providing some preliminary findings and potential practical and academic contributions.

### **KEY WORDS**

Family business, entrepreneurship, succession, wine, winegrowing

## PURPOSE AND RATIONALE

The present study explores the dynamics of family business succession from generation to generation. Of particular interest is how vision and purpose are transferred from one generation to the next in order to maintain an innovative and entrepreneurial spirit. There is growing interest in the intersection between family business and entrepreneurship - if succession is introduced into this mix, the result is a focus area that is timely given many business owners from the “baby boomer” generation are approaching retirement. The context of the study is embedded in the wine industry. Figure 1 describes the relationship between the primary constructs.



**Figure 1: Adapted from - Family business, entrepreneurship and succession nexus (Woodfield, 2008)**

The literature for the primary constructs (Entrepreneurship, Family Business, and Succession) is relatively extensive. However, the literature on the overlaps is disproportionately limited and the nexus of the constructs is virgin territory. What we do know is that researchers have identified issues that arise when a business is transferred from the incumbent family member to the next generation suggesting there is a need to inquire more about the process. Brockhaus (1994) clarified the need for further research into succession issues, particularly entrepreneurial succession, and the strategic planning and management of the process. Brockhaus was echoed by Hoy & Verser (1994, p.19) who emphasised the need for further research into the transfer of the “founder’s vision to other family members.” These insights were reflected upon by Fletcher (2004, p.36) who observed that the “relationship, intercept or overlap of entrepreneurial and family domains in the context of small and/or family businesses is an important, yet underdeveloped, area of research.”

In summary, there is scope for understanding how the founder translates their vision and purpose through the succession process, with respect to the successor's own vision for the future of the business. This leads us to the primary research question - How do family businesses ensure entrepreneurial activity continues across generations?

## **LITERATURE**

This review will be in four parts. First, a brief background of the New Zealand wine industry; second, an overview of family business and entrepreneurship research; third, further rationale regarding the gaps being investigated; and fourth, questions that will be explored.

### ***Wine Industry***

Though winegrowing in New Zealand can be tracked back as far as the early European settler, the industry moved forward with the arrival of a number of Mediterranean families from Lebanon, Dalmatia and Spain, between the late 1800's and World War Two. These families remain some of the largest names in the industry today. The industry has brought hospitality and tourism to regions that were relatively unrecognised, and many opportunist or hobby wine makers have appeared alongside the longstanding family wineries.

There are approximately five times as many winegrowers in New Zealand today compared with the early 1990's, and twice as many winegrowers now than there were at the turn of the century (New Zealand Winegrowers, 2002, 2009). Although there are many factors contributing to this growth one thing is constant – many of the old and new winegrowers consider themselves to be family winegrowers. In addition, there appears to be a drop off of family winegrowers the larger their business gets. This in part is due to selling the business, or where investments have been made in the business by non-family members. Herein lays the dilemma regarding family continuity within the business. So what is unique about family businesses?

### ***Family Business Research***

The accepted influences of entrepreneurial businesses involve the initiative of an individual(s) or a family that have a common goal and usually possess similar values. In the case of a family business the literature indicates that values are inherently similar and can be less of a stumbling block than building a team out of individuals with different ideals. However, the influence of the founder or pioneer may determine how much they will allow "outsiders" to be involved in the business (Kets de Vries, 1993). Also, Westhead and Cowling (1998) state that family businesses can be impeded if the family's management is reluctant to raise external funds because of fears it will result in a loss of family control. Lansberg (1999) identifies a common theme of dreams not being congruent between spouses, siblings and other family members. This can lead to intense feelings that can bubble to the surface and present as resentment, bickering and deep regrets. Ownership statistics from generation to generation also identify threats to the continuity family businesses. Table 1 provides examples of reports that suggest there is a decline in family involvement from generation to generation. This poor scorecard for family businesses is a concern, and in essence disappointing given that the main threat to the business may be the family members.

**Table 1: Family involvement**

Source	Finding
Smyrnios & Dana (2007)	70% of businesses surveyed are family businesses with the larger proportion being first generation (57%), subsequently halving in the second generation (30%) and halving again to the third generation (13%).
Ward, 1987, as cited in Astrachan & Shanker (2003, p.216)	Approximately one-third of post-start-up family businesses survive and reach the second generation of ownership; 12% will still be viable into the third generation, with 3% of all family businesses operating at the fourth-generation level and beyond
Kets de Vries (1993)	About 3 out of 10 family businesses make it past the first generation and only 1 in 10 make it through the third generation.

***Family Business Succession and Entrepreneurship***

Davis (1968) coined the phrase “entrepreneurial succession.” Davis describes the entrepreneur as an important person who not only has an ability to take risks and innovate, but sees that the newly formed organisation is operating successfully where the management function can be “transmitted” to others. It is no wonder Davis focussed on family businesses to study the problem of entrepreneurial succession as he viewed the extended family as “the most basic and stable unit of social organization in traditional society” (p.404). It is this combination of family business, entrepreneurship and succession that brings us to the nexus of the present study.

The intersection between entrepreneurship and family business becomes interesting when viewed in the context of a succession process. One of the many challenges of any business is recreating its competitive advantage to overcome growth retardation or demise. One of the key concerns for family businesses is to retain the entrepreneurial spirit across generations. According to Schwass (2005), the grooming of next generation leaders needs to be adopted as both a mindset and an objective that is implemented over time. The rationale is that families grow over time increasing the number of stakeholders/owners and changing market conditions require continual adaptation and renewal. The business vision needs to be developed and implemented and potentially altogether changed by successive generations, to provide growth and give a sense of ownership to the business (Schwass, 2005).

“The next generation leaders need to be seen and recognized as entrepreneurs, in their own right, and as a really powerful engine for business growth in the family business.” (Schwass, 2005, p.30)

Schwass (2005) broke down the family business into three archetypes. First, the “ephemeral family business” is a single-generation business of a business that fails early in the second generation. An example would be a business that is centred on the entrepreneur and lacks a transition from an “individualistic” business to a “collective” family business - in other words, a business that lacks sustainable, value-based vision. Second, there is the “preserving family business” which lasts several generations but suffers from retarded, or indeed no growth. There are many examples of this phenomenon in farms and vineyards. Third, and most relevant to this research, is the “entrepreneurial family business”. Unlike the aforementioned family businesses, the entrepreneurial family business has more complexity due to an underlying vision that family members benefit from

keeping the business together. Schwass describes the entrepreneurial family business archetype as “[an] answer to those critics who see no future for family businesses” (p.32).

The questions in Table 2 have been formulated as a result of notable gaps in the literature relating to entrepreneurial family business.

**Table 2: Research questions versus form of questioning**

Question	Form of questioning
Are business founders finding a suitable successor(s) from within their family?	If yes, how and why? If no, how so and why?
Have alternative exit strategies taken precedence over maintaining a family legacy?	How? Why?
Have family members neglected to capture the founder’s vision?	Why?
Is the founders’ vision and purpose important to next generation successors?	If yes, how and why? If no, why?
How do family businesses ensure entrepreneurial activity continues across generations?	How?
How does entrepreneurship succeed from one generation to the next?	How?
Do the second and third generations have more entrepreneurial vision than the founding generation?	If yes, how and why? If no, why?
Are there potential threats to the next generation leaders if incumbent generations are more entrepreneurial?	If yes, how and why? If no, why?
How can we learn from the positive experiences of existing family businesses that have gone through the succession process?	How?

These questions all lean toward a family business succession inquiry. Apart from the final question, the focus of the questions is on vision, purpose and entrepreneurship, and the importance of each. The final question emphasises the approach one may take in learning about the succession process. A review of the literature emphasises problems, conflict and issues in family businesses, rarely reviewing the appreciative and positive aspects of family business. The research methodology described in the following paragraphs aims to incorporate the richness offered by the appreciative approach.

**METHOD**

The research process, will be framed using the canonical development approach presented by Hindle (2004). Appendix 1 illustrates Hindles’ framework for selecting qualitative methods specifically in the entrepreneurship field. Hindles’ “domains” (research question, philosophical context, and methodical content domains) provide a framework for discussing the chosen area of research, the relevance of qualitative research, and the chosen research methodology. A qualitative approach is well suited to family business and entrepreneurship research at a paradigmatic and methodological level. Hindle (2004) suggests that there has been an explosion of qualitative research in the social sciences but is “demonstrably underrepresented” in entrepreneurship research. This sentiment can also be related to family business research.

Because entrepreneurial succession is dynamic it requires an interpretive inquiry to delve deep into the process. A unique aspect of the data collection is the inquiry about the appreciative and positive aspects of the family business. Traditionally problems, conflicts and issues are researched as opposed to inquiries into what is going well. The mode of inquiry used to accomplish this is

Appreciative Inquiry (AI). This is a forward-thinking process for the evaluation of organisations (Cooperrider, Whitney, & Stavros, 2003). Using AI does not mean other information will not come forward relating to challenges and issues, however, the appreciative focus will provide data that are rich in what works well in the organisation. Appreciative inquiry blends well with what is being investigated because the “spirit” of entrepreneurship is forward-thinking and engaging.

The case study research strategy will include three case sites within the wine industry. The argument for three case sites is that good depth can be accomplished with a smaller concentration of cases without relying on one case to provide all of the insights. In support of the case study strategy, it has been noted that history plays an important role in supporting the contemporary focus that case studies represent. It is necessary to explore the history of the family and the previous relationships and intergenerational transfers (if any), to crystallise and make sense of the past. At this early stage in the research the findings are preliminary but provide some indication of what may lay ahead.

### **PRELIMINARY FINDINGS AND CONTRIBUTION**

Although it is too early to provide formal results, an extensive literature review and pilot interviews have identified themes that are likely to be encountered. One theme is innovation. While speaking with a German winegrowing family member, innovation was identified as a theme that precipitated continuity of their business within the family. The father concentrated on growing the business without expecting the children would take over the business. However, although one daughter naturally showed interest, the son did not until the father introduced an innovative change to the business practice. This business is over 10 generations old. In the business’ history other examples emerged where innovation had invigorated the next generation to be involved, including WW2 and the premature death of one of the forefathers. Another theme is the organic way the succession process tends to occur. Drawing from discussions with several winegrowers, succession was not always a given within the family. It is more the case of seeing if the children are interested by letting them do their own thing for a while. As in the example above, the sentiment is that the next generation will join the business when they are ready, if at all.

The argument in this paper is that there is a contribution to be made when researching entrepreneurship with family business and succession. In particular, this combination of constructs being discussed in the context of the wine industry is unique. The academic output for the research will be targeted at the *Family Business Review*; *Entrepreneurship, Theory and Practice*; *Journal of Business Venturing*; *Journal of Small Business Management*; *Academy of Management Journal*. There are also industry related journals such as the *International Journal of Wine Business Research* that will be targeted.

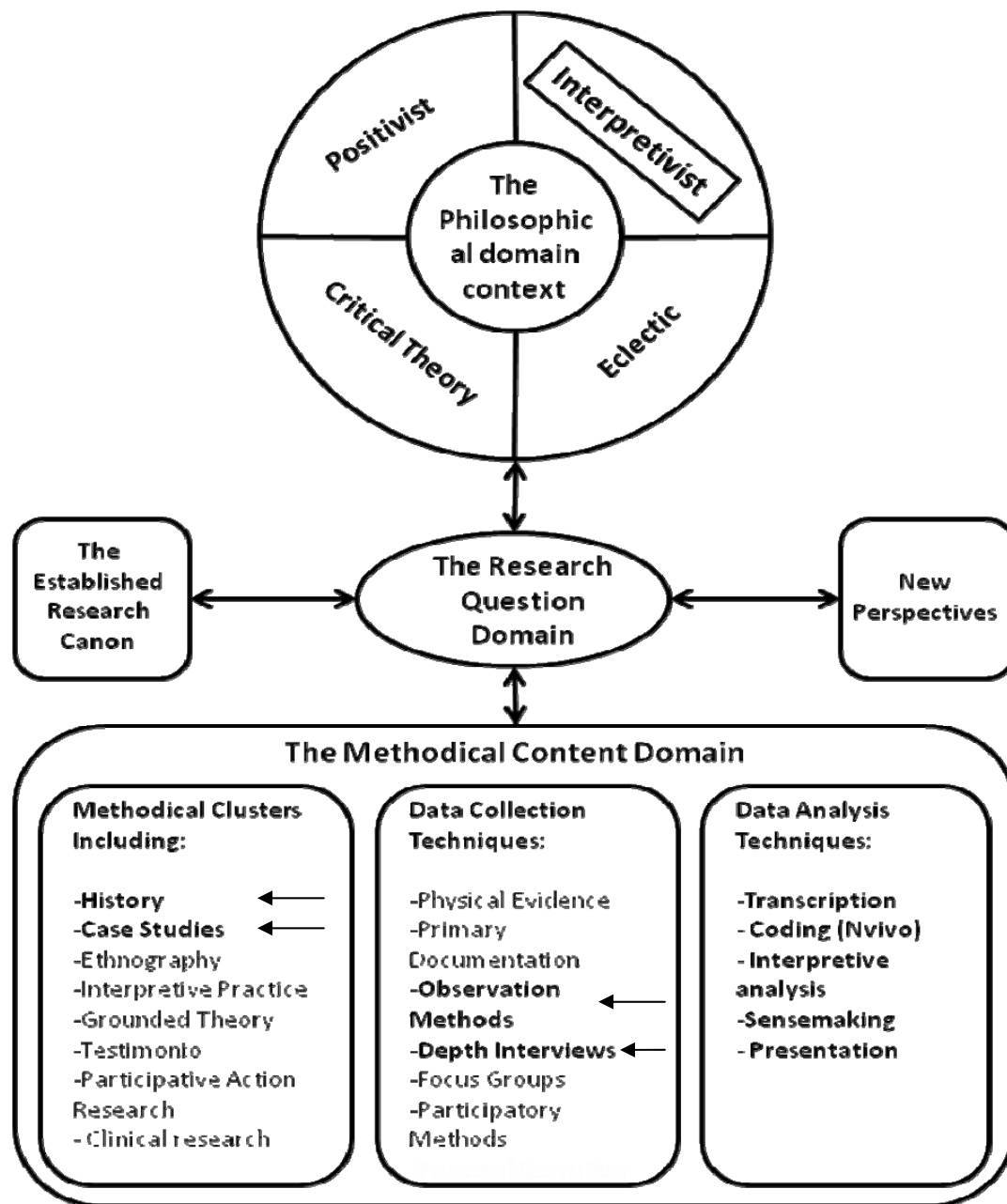
The practical contributions include:

- Providing a framework for sustainable family businesses
- Further research into the area of family businesses and the entrepreneurship and succession overlaps
- Recommendations into succession and estate planning
- Understanding the dynamics of an entrepreneurial family business

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APPENDIX 1



An adaption of “A canonical development framework for choosing qualitative research methods” (Source: Hindle, 2004)