1-1-2009

2008 STEP Summit in Milan

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III. Step Summit
Milano

Europe

Observations
Opportunities
Key Learning

The Babson Global STEP Project
“STEP is the leading global research initiative investigating generation-spanning success of family firms. Our research framework provides a unique perspective to investigate what makes family firms successful across generations. The collaboration between successful enterprising families and leading scholars creates exciting opportunities for all involved individuals.”

**Driving questions of the STEP Project:**
As you can see in the research framework below, we are interested in exploring the following questions through our applied research:

**Q1:** How does entrepreneurship relate to the continuity of family business groups?
**Q2:** How do business families and their constellation of business activities generate and sustain entrepreneurship across generations?
**Q3:** What are the unique resources of business families and how do they impact entrepreneurial behavior?
**Q4:** What kind of entrepreneurial attitudes do families have and how does this impact their performance and longevity?

**STEP Research Framework:**

- **Entrepreneurial Orientation**
  - Autonomy
  - Innovativeness
  - Risk taking
  - Proactiveness
  - Aggressiveness

- **Familiness Resource Pools**
  - Financial
  - Human
  - Physical
  - Social
  - Knowledge
  - Culture
  - Intangible

- **Performance**
  - Financial
  - Entrepreneurial
  - Social

- **Transgenerational Potential**
Ahu Buyukkusoglu, CEO, FARPLAS, Turkey

“The Summit was a wonderful occasion for us to come together with other families and benefit from their experiences. When you are a fast growing business like ours, you hardly find the time to stop and think about your family history and where you want to go, so this Summit was very helpful in terms of thinking about how to shape our business in the future.”

ENABLING FAMILIES TO CONTINUE THEIR ENTREPRENEURIAL LEGACY

Opportunity  Prosperity  Innovation

After three years of research in Europe, we are more convinced than ever of the importance of the STEP-Project on Successful Transgenerational Entrepreneurship Practices. The families who have participated with us in this project have demonstrated the unique entrepreneurial potential and economic contribution of families around the world.

We have clearly validated the assumption that business families, when healthy and effective, have a special potential for entrepreneurial behavior and value creation. Families have a unique ability to use and pass on entrepreneurial mindsets and capabilities to create new streams of value - it is this process which we refer to as transgenerational entrepreneurship.

Currently, the global STEP-Network consists of 31 countries with over 100 enterprising families working with 40 universities representing 125 scholars. STEP partners combine in depth research case studies with quantitative survey analysis. Participating families are invited to an annual Summit-conference taking place in vibrant cities. Each Summit excelled expectations in delivering value back to the families by applying the research findings, facilitating dynamic networking, and benchmarking of best practices.

The following booklet sets out to inform both participating families and potential new members. The themes discussed and the content delivered at the summit transpire in dynamic learning event which is impossible to capture in a booklet. However, we would like to give you a taste of the our unique experience of this event and the emerging themes which we will continue to explore.
Tom Roche  
Chairman of the Board, NTR Group, Ireland

“During the STEP Summit my family had the opportunity to meet with leading family business practitioners and academic scholars to discuss the phenomenon of transgenerational entrepreneurship. For me it is evident that entrepreneurship is the oxygen needed to ensure the growth propensity of all family firms. Family firms which are typified as excellent performers do not necessarily believe solely in organizational excellence but in the need for continual improvements and constant change. Excellent family firms of tomorrow will cherish impermanence and dually thrive on chaos therefore the need for transgenerational entrepreneurship is paramount. Furthermore, evidence from the STEP research to date shows that the family orientation within the firm is a major contributing catalyst for the combustion of entrepreneurship within the firm.”
“Being a family psychologist and family therapist, I was surprised to realize the deep entanglement of management and psychological issues in family owned businesses. The family is the heart of the business, and so family-processes resonate in any business decision. Passing on an “entrepreneurial mindset” into the next generation is a complex process that needs a lot of involvement and learning from the parents which act as role models. Here we see a paradox: involve the children to create a relationship with the business, and at the same time give freedom to let them find their own way.”

Our 2008 European Summit in Milan focused the discussion around 4 major emerging themes from our research which have had a strong impact on transgenerational entrepreneurship.

1st Day

The four themes had dedicated 2.5 hour blocks, each with its own unique structure. Session leaders used the time to create various forms of creative exchange including: entrepreneur interviews, panel discussions, case presentations, theory presentations, breakout groups and active self-reflection. These various pedagogical formats were all tools used to transfer knowledge, facilitate peer benchmarking and foster an environment for creative thinking. The following pages provide a taste of the session themes and discussion.
Julia Hofmann, Switzerland

“Participating in the Milan STEP Summit was a great experience for me being a next generation family member myself. The issues raised there are exactly those that our family faces in preparing for the generational transfer. I developed a much better idea about what steps we should take to ensure a successful entrepreneurial transfer.”

Entrepreneurial teams are a key resource within the family’s pool of distinct resources which tend to weaken over time mainly due to family complexities. We suggest that business families should evolve into a different model of leadership depending on the characteristics and complexity of the family and the business. We look at the role of succession on performance and explore two questions that arise from management and ownership succession:

1. How do we replace the founder resource?
2. How do we deal with ownership complexity?

Three approaches to succession are suggested: Solo Owner, Family Team and Entrepreneurial Family Team (EFT). To answer these questions it is important for families to first decide where in the model they feel they are in, why they think they are in that model; if this model will be functional in the future, if they should change and how if that is the case.
“Our family culture is characterized by a wish to stand out, to do that what is different and to go against the stream at the same time as we are commercially successful. In practice this means that we test the new and that we always scan for the exceptional.”

Owner Centric Culture (OCC) is reproduced over generations. This culture changes incrementally over time around the core values of the business family. OCC may foster focused strategic renewal characterized by flexibility, change-orientation and innovation. At the same time, strong OCC may lead to inertia with family management characterized by centralization of power, dominated by the owner’s beliefs and ways-of-thinking and need for control.

- Owner centric culture is a duality of different forces that exists side by side in the organization. The duality consists of the need to keep the core values of a culture that upholds family traditions at the same time as there is a need to question what is taken-for-granted and be daring with novel strategic actions.
- Dominance of an owner may be beneficial for the proactiveness of the organization but hampering the autonomy among next generation individuals. A familiness plus, f(+), for the organization may thus be a familiness minus, f(-), for the individual.
- A f(+) in one epoch of the family business may become an f(-) in another epoch. With a high degree of autonomy and proactiveness of the senior generation, it might be problematic to allow the same for the next generation, where lack of autonomy may hamper the “letting-in” of the incoming generation.
Portfolio entrepreneurship goes beyond the popular conception of the family business as a single business to truly capture the full range of value creating activities of the business family. Successful portfolio families leverage their comprehensive pool of resources as an engine for value maximization and growth through multiple ventures.

The evolution of portfolio entrepreneurship often begins with business opportunities which tend to rise around the traditional core business. From this opportunistic beginning, successful business families often reach a decision point of making portfolio growth their primary strategy.

The family resource-pool is a critical component of maintaining a successful portfolio of businesses. This resource-pool includes financial, human, physical and social resources. Family influenced resources, present distinctive resource to create competitive advantages and to start new entrepreneurial initiatives.

Timely exit is a prerequisite to entrepreneurial renewal but is often overlooked in a business portfolio. Portfolio entrepreneurship is not just about starting or buying new ventures, but also knowing when to divest strategically unproductive units.

**ENTER**
**Motives**
- Start
- Today
- Strategic Intention
- Opportunity Driven

**MANAGE**
**Enablers**
- **Family Resource Pool:**
  - Financial
  - Human
  - Physical
  - Social

**EXIT**
**Timing/Revitalization**
- Steel Industry:
  - Defend Market Position in Mature Industry may exceed Financial Capabilities of Family
- Green-Energy:
  - Timely switching into (related) Industry with growth potential

Ramon Carbonell – COPCISA; Spain

“During the Summit we were able to discuss between our brothers, with the academics and with other family businesses about topics that we can never talk about at the office with the distraction of telephones, secretaries and daily operations. It has been very important for me to be able to get the members of my family involved in shareholder discussions.”
Some view governance as a legal requirement which blocks creative thinking and entrepreneurial behavior. However, effective governance structures can be vehicles for unleashing entrepreneurial performance in family firms. In particular, family governance can have a profound impact on the entrepreneurial orientation of a company. Autonomy and risk taking at the firm level are especially impacted by governance structures and processes.

We show that governance structures may help in overcoming inertia related to negative family influence. Since family influence is so diverse, there are many forms of governance patterns, despite the pressure to build conformist governance structures. Family firms need to consider the complexity of family influence, for example emanating from different family ownership structures. The need for effective governance structures is greatest in case of sibling partnerships since interlocking block holdings may negatively impact the performance of family firms.

It is important to take into account life stage and family dynamics when constructing the most appropriate governance structure for a family firm. It is useful to ask how this structure will influence entrepreneurial behavior, a conversation too often missing from governance development.
Key Outcomes and the Next STEPs

How do academics proceed with their enterprising families and which actions are they going to take?

This Summit provided a rich exchange to deepen our understanding and highlight key avenues to explore in the future.

Below you will find key take aways and emerging new questions from the Milano Summit.

Key findings and take aways

• Succession can be viewed not as an individual leadership change event, but rather as transition process to institutionalize mindsets and resources over time.
• Individuals of the next generation do not necessarily need to be personally entrepreneurial, they need to be able to create and allow for an entrepreneurial culture.
• Given the diversity of shapes and sizes of family firms, we can learn from anomalies, and those firms who do things differently.
• All families deal with stability vs. growth decision that affect the family and the business. There is no “right answer” to these decisions, but all must evaluate the related risks and opportunities for family and firm.

New & emerging questions from our research

• How does a business family keep a continuously growing tree of family members interested in and excited about the family business?
• How to share values and visions with non-family managers?
• How does accountability effect entrepreneurship in the family context.
• What does it mean to be a “good parent” in managing a portfolio holding company?
• How does the multitude of overlapping roles in family enterprises – from management, to ownership to entrepreneur to sister and brother – effect or constrain business growth and development?
For more information on being a part of the STEP Project research please contact your local partner university or one of the following:

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We are beginning to see the pieces around the world come together to form the full picture of family enterprising worldwide. We continue to see families with new approaches, structures, philosophies, practices and tools to owning and managing businesses. The connections, similarities, contrasts and opportunities for the future are truly exciting.

We have developed fascinating and effective teams in Latin America, Asia Pacific and most recently, North America. Latin America had its 2nd Summit at ITESM in early November 2008 in Mexico City and Asia Pacific had its 1st Summit at CUHK in Hong Kong at the end of November 2008. North America will be hosting its first regional Summit in Fall of 2009. These events are now open to all STEP academic and family member from every region.

As we continue to develop this body of knowledge in Europe and around the world, we need new members to bring their experience, insights and minds to the table. We invite you to participate in the STEP Project and join us in this rich global dialogue which is committed providing a deeper understanding and high impact solutions for the business families of the world. There are opportunities to get a qualitative case written or to participate in our quantitative survey.

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