IF WE CANNOT HAVE IT THEN NO ONE SHOULD HAVE IT: BUSINESS EXIT AND RE-ENTRY (SUMMARY)

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SUMMARY

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Principal Topic

The recent study from Zellweger et al. (2012) showed that 90 percent of their surveyed entrepreneurial families were engaged in more than one firm which explains the rising importance of portfolio entrepreneurship literature in general (Carter and Ram, 2003) and in the family business context in particular (Sieger, Zellweger, Nason and Clinton, 2011). However, while the reasons why business families engage in portfolio entrepreneurship are well-known (Carter and Ram, 2003) and a recent study highlighted how they build up a business portfolio, there is no research about how business families manage an existing business portfolio in the long run. The context of business exit in particular can be a promising value-creating strategy (DeTienne, 2010), as it may not necessarily represent failure but can help preserve socioemotional wealth related to the family firm, notably in times of declining performance. Thus, to add to the understanding of the long-term success and endurance of business families, I investigate how they react to declining performance by engaging in exit strategies in their business portfolios.

Method

I study a sample of six family business portfolios from Pakistan, a total of 49 businesses and 20 exits that faced declining performance. This context is purposefully chosen due to the wide prevalence of portfolio family firms in emerging economies (Jaffe and Lane, 2004; Khanna and Yafeh, 2007) and particularly in the Pakistan region (Zaidi and Aslam, 2006). Due to the limited available extant theory, I choose a qualitative approach (Eisenhardt, 1989; Lee, Mitchell and Sablynski, 1999). Main data sources are interviews supplemented with observations and other supporting evidence collected over the last four years.

Results and Implications

First key insight is, business family often prefers shutting down a satellite portfolio firm – meaning closing down operations and keeping all the firm’s assets, rather than selling it to a third party. Second, analyzing the motives behind this decision reveals that the likelihood of shutting down versus selling a satellite firm is higher when there is a high family and satellite business identity fit. In this situation, selling a satellite business is not perceived as an optimal strategy given that part of the family’s identity would get lost. Third, initial evidence portrays that degree of business decline is an important contingency factor, and we shed further specific light on how the “shutting down” choice contributes to family firms’ long-term success.

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