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MATURING FAMILY FIRMS AND NEW ENTRY IN THE ENTREPRENEURIAL ORIENTATION – PERFORMANCE RELATIONSHIP

Einar Lier Madsen
Nordland Research Institute, Norway, elm@nforsk.no

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E. Madsen, Nordland Research Institute, Norway

ABSTRACT

In this paper, we examine how family and entrepreneurial orientation (EO) influences internal and external new entry among family businesses as well as the impact such new entry has on the relationship between EO and performance. Using a sample of 556 Norwegian family firms, we show that family influences internal new entry negatively if they have too much power, although a strong family culture is a positive influence. EO is the main explanatory variable for both internal and external new entry. This supports central claims in EO literature that new entry is the direct outcome of EO. However, another key contribution of this paper is the finding that new venture creation and EO both have an effect on performance compared to competitors. The findings further show that EO is partly mediated through external new entry in the form of new ventures.

INTRODUCTION

New entry is the direct outcome of entrepreneurial orientation (EO) (Lumpkin and Dess, 1996). Thus, new entry represents the causal mechanism that potentially translates EO into superior firm performance (Wales et al., 2015). Despite widespread agreement, assuming that there is a direct association between EO and performance is overly simplistic (Wiklund & Shepherd, 2011); the causal mechanisms in EO–performance relationships have largely been assumed rather than explicitly examined in prior research. Thus, the relationship between EO and new entry has received scant attention (Covin & Miller, 2013), which is also the case for family business literature. Moreover, there has been limited research into the mediating influences in EO–outcome relationships (Wales et al., 2013) with the notable exception of a study by Wales et al. (2015).

However, the relationship between EO and new entry is particularly interesting in the family business context for two seemingly contradictory reasons. First, retaining an entrepreneurial spirit is challenging as a family business matures, in particular as it is transferred from one generation to the next. Second, despite these challenges, many families indeed remain highly entrepreneurial across generations by pursuing internal and/or externally oriented strategies to develop trans-generational wealth by new entry. For example, new entrepreneurial initiatives can be established outside of the boundaries of the original business (e.g., launching new ventures) or changes in internal entrepreneurial activities can be under- taken (e.g., new products or services). Thus, families pursue new entry both outside and within the original family business. By taking such "external" and "internal" new entries into consideration, we are able to account for the totality of new entry within family businesses. New entry can be seen as the entrepreneurial activities of establishing a new venture, offering a new product and/or service, a new combination of product or service components, and entry into a new market (e.g., Wales et al, 2015; Davidsson, 2005). This suggests that new entry is a multifaceted phenomenon that can involve many different entrepreneurial activities. In this paper we define *external new entry* as entrepreneurial venture activities or establishing a new business and *internal new venture* as change in entrepreneurial activities within the family firm. Thus, examining how familiness (Habbershon et al., 2003; Klein, et al., 2005) and EO (Covin & Slevin, 1989) influence internal and external new entry among family businesses and the impact such new entry has on performance are the main concerns of this paper.

The paper is structured as follows. We begin with a short review of the literature and develop testable hypotheses. The next section elaborates the study design and research sample. A presentation of the study's results follows, and the final section outlines the conclusions and discusses the implications of the findings for family owners, managerial actions, public policy and future research.

HYPOTHESIS DEVELOPMENT

Family influence and new entry

Little is known about the possible relations between familieness (power, experience, culture) and new entry. However, as EO to some degree concerns new entry (Lumpkin & Dess, 1996; Covin & Slevin, 1989; Miller, 1983) we take advantage of the EO literature on family firms in our hypotheses development. *Power* refers to the level of family ownership, whether the manager is from the family and the level of family participation in the family firm's board. In all three cases, the amount of family influence on key resource allocation decisions may be highly significant (Miller & Le Breton-Miller, 2011). The case for entrepreneurial behavior can be similar. Previous studies tended to focus on the risk taking behavior of family firms (Naldi et al., 2007), concluding that family businesses are risk averse, reluctant to innovate and slow or resistant to change (Gómez-Mejía et al., 2007; Hall et al., 2001). The conclusion is that they tend to be conservative. Miller and Le Breton-Miller (2011) are representative of the view on EO in family firms: *"In short, the components of EO—risk taking, innovation, and proactiveness—will be limited in the family firm. Risk will be avoided, resources will be extracted from the firm to limit reinvestment of earnings, and hence innovation will also be curtailed as it frequently requires such investment and risk taking (Lumpkin & Dess, 1996; Miller, 1983)"* (p. 1056). Hence, the following hypothesis can be formulated:

Hypothesis 1a: Higher levels of family power (ownership, family manager, board members) are negatively associated with new entry in family firms

Experience refers to the summed experience that the family brings into the business and is operationalized by the generation in charge of management and ownership (the more generations there are, the greater the opportunity for relevant family memory) (Klein et al., 2005). Experience concerns the generations in the family firm and it is assumed that the level of entrepreneurial behavior is different among family businesses of different generations (Weismeier-Sammer, 2011). Generational experience is viewed as a prerequisite within transgenerational entrepreneurship, i.e., as the firm moves through successive generations, the central issue to understand is the family's ability to create wealth across generations through entrepreneurial behavior (Nordqvist & Zellweger, 2010). Because entrepreneurial behavior is essential for ensuring the future success of the family business (Habbershon et al., 2010) and because an EO is central for founder or first-generation family firms, the following hypothesis can be proposed:

Hypothesis 1b: Higher levels of generational involvement are positively associated with new entry in family firms.

Culture refers to values and commitment; family commitment is observed in the overlap between business and family values (Klein et al., 2005). A culture of commitment involves three principal factors: personal belief in and support for an organization's goals and vision, a willingness to contribute to the organization, and a desire for a relationship with the organization. (Carlock & Ward, 2001; Klein et al., 2005). An underlying assumption is that commitment is rooted in and shaped by the values of the family, i.e., that each family has its own structure, history, values and norms that influence the attitudes, mind sets and actions of its members (Sharma & Manikutty, 2005). Accordingly, families that are highly committed to the business are likely to have a substantial impact on the business (Klein et al., 2005), and some researchers suggest that there is an important interrelationship between the entrepreneurial family as actor and EO (Habbershon et al., 2010; Nordqvist & Melin, 2010). Here, we take the view that families who are highly committed to the business are likely to have a substantial impact on the business (Klein et al., 2005), proposing the following hypothesis:

Hypothesis 1c: A culture of strong family commitment to the firm is positively associated with new entry in the family firm.

EO and new entry

Existing studies of entrepreneurship in family businesses as well as in the general entrepreneurship literature have focused on new entry and especially on new entry through innovation and venture creation (Aldrich & Cliff, 2003; Zahra et al., 2004). Moreover, theorists on entrepreneurship and EO have long acknowledged that the main difference between conservative and entrepreneurial firms is the tendency of entrepreneurial firms to launch new and innovative product offerings (Covin & Slevin, 1991, Miller & Friesen, 1982). Empirical evidence corroborates this theory and shows that EO influences internal new entry such as new product introduction (Zara, 1993), product development (Li et al., 2006), and introduction of new categories of products (Li et al., 2006). However, Wales et al. (2015) did not find significant relationships between a revised EO measure and launching of new products, but found significant influence from EO on new market entry. Despite mixed results, it can be said that firms possessing more EO strategy-making processes (firms with higher EO) engage in firm growth strategies that emphasize a higher frequency of proactive new product introductions (Renko et al., 2009; Zahra, 1993; Li et al., 2006). This leads to the following hypothesis:

Hypothesis 2a: EO has a positive relation on firms' internal new entry.

Entrepreneurship is also new entry through the establishment of new organizations or ventures (Sharma and Chrisman, 1999; Davidsson & Wiklund, 2001), and can be regarded as "the process by which new organizations are created" (Gartner, 1989: 62). Furthermore, as Wales et al. (2015) notes, launching new organizations has been theorized as a means through which parent companies may respond to the key entrepreneurial imperative of new entry (Birkinshaw, 1997). According to the literature, many corporate ventures are formed to develop better capabilities or technology, expanding into new markets or independently pursuing different goals from the parent firm's core mission (Wales et al., 2015). Having a greater EO makes firms more likely to find and recognize opportunities to launch new ventures, as EO is innovative, proactive and risk-oriented. Thus, the following hypothesis is proposed:

Hypothesis 2b: EO has a positive relation on firms' external new entry.

New entry as a mediator in the EO-performance relationship

EO is a strategic posture or orientation (Covin & Wales, 2012) where some activities or behaviors to bridge the gap between initial intentions and outcomes are required to achieve the intended outcomes (Lumpkin & Dess, 1996). In this study, we suggest that new entry at the firm level is a potential mediator in the EO-performance relationship. New entries are entrepreneurial activities that are put into effect to propel the survival and growth of a business. Thus, it is possible to anticipate a mediating role for new entry in the EO–performance relationship. Wales et al. (2015) show that this can be correct, as EO is partly mediated through new entry represented by launching new products and entering new markets, while launching new ventures not was found significant in their study. Despite the mixed findings, we suggest new entry as a mediator and propose the following hypothesis:

Hypothesis 3: The relationship between EO and firm performance is mediated by internal new entry and external new entry.

METHODS

Sample and data collection

In spring 2012, questionnaires were mailed to the family firms in The Confederation of Norwegian Enterprises and a random sample of 16,707 enterprises from the national enterprise register. In sum, 784 family firms (limited companies) answered the questionnaire. Some of these firms had incomplete answers to one or more of the questions, giving us a total of 567 family firms for the analyses.

Variables and measures

New Entry concerns to what extent the following statements describe developments in the firm over the last five years, on a five-point scale from 1 for "not true at all" to 5 for "matches very well". *Internal new entry* consists of three questions about having "invested considerably in increased production", "radically converted to a different main production", and "established a more versatile production of product/services" with Cronbach's alpha equal to 0.700. *External new entry* consists of two different modes of entry, "have established new business(es) which use firm resources" and "have established new business(es) in addition to existing business" (Potter & Lobley, 1996; Lobley & Potter, 2004) with Cronbach's alpha equal to 0.787.

Performance was analyzed with *performance measures*, perceived relative performance (competitive advantage) (Madsen, 2007). Respondents were asked to indicate on a seven-point scale whether they disagreed or agreed with six statements about different aspects of their competitors' firm performance. The analysis indicates that a single dimension appropriately represents the perceived relative performance measure.

Entrepreneurial Orientation was measured using a scale that was developed based on the operationalization of EO by Miller (1983) and Covin and Slevin (1989). The items were adapted to a one-sided, five-point Likert scale ranging from 1 being "strongly disagree" to 5 being "strongly agree". However, as outcome is a part of the scale (see Covin & Miller, 2014), they can be too similar to the internal new entry variables. Therefore, two variables were omitted: "very many new lines of products or services marketed in the last five years" and "changes in product or service lines have usually been quite dramatic." The seven items were averaged with a Cronbach's alpha equal to 0.854.

Family influence (F-PEC) was measured with three different dimensions: power, experience, and culture. *Power* was measured with three items: (1) the proportion of the share of ownership held by the family, (2) the proportion of board seats held by the family, and (3) whether the general manager comes from the family. *Experience* as generational involvement was measured with three items that were all taken from Klein et al. (2005). The questions were: "which generation owns the company?", "which generation(s) manage(s) the company?" and "what generation is active on the governance board (have the voting majority)?" The items were summed and averaged. *Family culture* was measured using a scale developed based on the operationalization of the family culture scale by Chrisman, Chua, Pearson, and Barnett (2012). The items were measured using a five-point Likert scale ranging from 1 being "strongly disagree" to 5 being "strongly agree". The Cronbach's alpha of the scale was 0.940

RESULTS

The hypotheses were tested using linear regression models. First, the relationship between family influence and new entry was tested. The results are shown in table 2. The findings reveal a significant negative relationship between the family influence dimensions of power and *internal new entry*, and a positive significant relationship with family culture. No significant relationship was found between experience and new entry, and no significant relationships were found between the family influence variables and *external new entry.* Thus, the findings only partly support hypotheses H1a and H1c. Hypotheses H2a and H2b were confirmed, as EO had highly significant relationships with both internal and external new entry. However, the control variable for firm size also had significant relationships with new entry. Second, a hierarchical linear regression analysis was conducted to test for relationships, with performance as the dependent variable and with internal and external new entry as mediating variables that were tested separately. The results did not show a significant relation between *internal new entry* and performance as competitive advantages (CA). Thus, H3a was not supported. However, a positive significant impact of *external new entry* on CA was found, giving partial support to hypothesis H3b about external new entry mediating the EO–performance relationship. Furthermore, weakly significant relationships between family culture and CA were found.

DISCUSSION AND IMPLICATIONS

The present study is, to our best knowledge, the first attempt to explore the relationship between family influence, EO, and new entry and implications on performance in family business literature. Such studies are rare in the EO literature as well. By testing these relationships, the findings show that there are some positive and significant relationships between both family orientation and new entry and between EO and new entry. For instance, family influences *internal* new entry negatively if they have too much power, while a strong family culture is positive. However, family influence does not have a significant effect on *external* new entry (establishing new businesses). The firm-level EO is the main explanatory variable that shows highly significant relationships with both internal and external new entry. This supports central claims in EO literature that new entry is the direct outcome of EO (Lumpkin and Dess, 1996). However, another key contribution in this paper is the finding that new venture creation and EO have an effect on performance (CA). One interpretation of this is that EO is partly mediated through external new entry (establishing new business (es) that use firm resources and establishing new business(es) in addition to existing business). Thus, new entry can represent the causal mechanism that potentially translates EO into superior firm performance (Wales et al., 2015). Our findings should be of great interest for both managers and the research community, as the important questions in EO research and research on family firms are in understanding how and why a family business remains highly entrepreneurial across generations.

A limitation with this study is the cross sectional design and the one country setting. Further research will hopefully come up with longitudinal design in other countries. Other performance measures should also be used, e.g. sales growth to see how new entry influence the EO – growth relationship.

CONTACT: Einar Lier Madsen; elm@nforsk.no; (T): +47 75411831; (M): +47 99495977; Universitetsalleen 11, P.O.Box 1490,8049 Bodø, Norway.

Table 1 Descriptive statistics: Mean, standard deviation and correlations

	Mean	Std. Deviation	Firm size	Power	Experience	Family culture	EO	New entry - Internal
Firm size	1,4265	,34207						
Power	2,7245	,51774	-.215**					
Experience	1,8241	1,04225	.281**	.007				
Family culture	4,3665	,80788	.068	-.020	.041			
EO	2,8006	,82002	.231**	-.174**	-.011	.070		
New entry - Internal	2,7448	1,01230	.266**	-.144**	.061	.102*	.474**	
New entry - External	1,9597	1,32986	.236*	-.101*	.011	.028	.308**	.334**

**. The correlation is significant at the 0.01 level (2-tailed). *. The correlation is significant at the 0.05 level (2-tailed). n= 556

Table 2 Linear regression model: New entry, performance and independent variables

	Dependent variables/models					
	New entry				Performance	
	Internal (entrepreneurial change activities)		External (entrepreneurial venture activities)		Competitive advantage	
Control variables						
Firm size	.243***	.148***	.241***	.183***	.224***	.217***
Family influence						
Experience	-.010	.022	-.059	-.039	.049	.054
Power	-.090*	-.036	-.046	-.013	.015	.014
Family culture	.084*	.060	.016	.001	.066^{+}	.070^{+}
EO		.430***		.262***	.381***	.387***
New entry						
Internal					.067	
External						.089*
R^2	.085	.256	.061	.125	.287	.291
Adjusted R^2	.079	.249	.055	.117	.280	.283
Change in R^2		.171		.064	.003	.007
F-statistics	12.841 ***	37.838 ***	9.003***	15.704***	36.891***	37.543***

Notes: Statistic significance: $^{+}$ indicates p<0.10; * indicates p<.05; ** indicates p<.01 and *** indicates p<.001. Values are Std. beta coefficients. n= 556.