Assessing the recent theoretical literature activities commerce essay

Business

This chapter reviews seminal and recent theoretical literature regarding entrepreneurial activities within the context of a family business. Using peer-reviewed journals and scholarly books on business, this review discusses the concepts of entrepreneurship, the definition of the family business, the relationship between entrepreneurial activity, and the entrepreneurial concerns in family business. It also contextualizes the study of family business in New Zealand. Despite the fact that traditional business systems possess familial characteristics in ownership and management, the family business has not received great academic attention. The acceptance of family business as a form of entrepreneurship has even been debated (Nicholson, Shepherd, & Woods, 2009). This literature review begins with an examination of the construct of entrepreneurship and the family business. Next it explores how entrepreneurship and entrepreneurialism is embedded within the family business. It will then survey literature on the entrepreneurial concerns that family businesses face such as succession, conflict management, and strategic management. Next, familial entrepreneurship in the context of New Zealand is presented. This literature review is expected to inform and guide the framework of this study on entrepreneurship in the family business in New Zealand. Entrepreneurship is defined as an activity which features creating or recognizing a commercial application for something new (Baron & Shane, 2007). The process model of entrepreneurship defines it as an activity involving the following steps: 1) identifying opportunities and realizing them; 2) experimenting and creating new products of renewing old products and services; 3) ensuring innovation and growth and taking calculated risks (Floren & Wijers, 2000).

Entrepreneurship denotes an ability to exploit and act upon opportunity by combining innovation and determination to bring about something new to the world (Drucker, 2002). A broader and widely-accepted definition of entrepreneurship (Shane & Venkatamaran, 2000) is: As a field of business, seeks to understand how opportunities to create something new arise and are discovered or created by specific individuals, who then use various means to exploit or develop them, thus producing a wide range of effects. (p. 218)The value of entrepreneurship in this world is significant because it is a major agent of economic development (Schumpeter, 1934; Baron & Shane, 2007). The pioneering work of Schumpeter (1934) defined the entrepreneur as someone who carries out " new combinations" in order to competitively eliminate the old. Entrepreneurship fuels economic development by introducing a new good or service or a new quality of the same good or service. It also introduces a new production method, opens new markets, and leads to the reorganization of whole industries. Entrepreneurs as innovators suggest that they may be inventive although a new innovation may not necessarily require a new invention (Drucker, 2002). Entrepreneurs innovate by using old resources to create new things and continuously looking for new opportunities to stimulate growth (Sciascia & De Vita, 2004). By this definition, entrepreneurs then are " people, who often habitually, create and innovate, and build something of recognised value around perceived opportunities" (Thompson, Alvy, & Lees, 2000, p. 331). Entrepreneurship research has traditionally focused on its role in economic growth and development and its results acted as prescriptions or evaluations of small business owners (Schumpeter, 1934; Nicholson, Shepherd, & Woods, 2009; Sciascia & De Vita, 2000). Empirical research on family businesses is scant and there has generally been a lack of interest on research focusing the entrepreneurial features and challenges of family business.

Family Business

Defining the term family business is not easy. Writers from all over the world have given and utilized several definitions but none of them is accepted generally. The definitions of the term usually covered three major areas: firm ownership, management, and perception of the firm being family owned. The definition adopted in this research will be chosen as it touches these three salient characteristics identified in the research of family businesses: ownership, management, and or the " familiness" perception (Westhead et al. 2002). The researcher believes that this definition is not overly rigid and onerous, yet it remains comprehensive. In this paper, a business is considered a family business when at least two members of the same family (immediate or extended) are significant contributors to the business operation, at least 50% is owned by two members of the same family, and CEO/Managing Director perceives the business to be operated and owned by the family. There are instances when a family owned business hires the services of a provider for technical advice and skills for a particular need. Ramsden and Bennett (2005) refer to this as external advice. In addition, Bennett and Robson (1999) described external business advice as the process where knowledge and information is exchanged between the family owners and the providers producing changes on the part of the client. Drawing from published literature, this definition will be employed in this paper: " An external business advisor is an individual or company that is not directly involved in the operations or ownership of your business, and provides knowledge, advice and/or support for issues relating to your business." In a pilot study by Nicholson, Shepherd, and Woods (2009), majority of family businesses considered were small to medium sized enterprises (SMEs). Various definitions have emerged with regard to the size of an SME; however, this proposal will use the classification of the Centre for SME Research which explained that an SME is composed of 50 employees. SMEs, similar to family firms, have its own set of issues, dynamics and characteristics compared to other types of organisations. A family business that is at the same time an SME is characterised by these issues and needs. Consequently, their utilization of external business advisory services might be different (Bennett & Robson, 1999). The intertwining of the family and business means that the firms can potentially take advantage not only from the engagement of external business advisors that offer advice of law and accountancy but also psychological and counselling services like conflict resolution and medication (Johnson et al., 2006). Generally, SMEs have a wider range of needs as opposed to larger firms to buy-in external assistance due to these important challenges and the constraints they face (Bennett & Robson, 2003). Yet, they are more reluctant to utilize the services of an external advisor since the owner-manager may find it difficult believing that the advisor could add value to the business (Oliver, 2003). This way of thinking is partly due to their belief that the advisor lacks the " street experience" to be accorded credibility. In the past decades, research on family businesses has recognized the uniqueness in the objectives, missions, functions, and dynamics of this type of business as opposed to non-family types (Bennett & Smith, 2004). These idiosyncrasies are brought about by coalescing the family and business. While fully characterising the nature of family-owned and managed SMEs is beyond the limitation of this paper, there are numerous challenges facing family businesses as follows: governance, formal planning, succession, human resource management, conflict, and growth. However, a great deal of care is needed so that stereotypes about family firms are avoided. Family business is a type of business that survives broad generalisations which poses a problem to researchers and advisors who seek to appreciate them. Viewed as a significant source of economic growth and development, family firms generate value by means of service innovations, process, and product that stimulate growth and result in prosperity. Because the ownership of family-owned and run businesses is long term, resources are continually innovated and underwent risk taking thereby entrepreneurship is fostered. Moreover, kinship-ties are thought to positively affect entrepreneurial opportunity recognition (Barney, Clark, & Alvarez, 2003). The managers likewise recognize that the survival of family firms is dependent on their ability to penetrate fresh markets and invigorate existing systems of operation to generate new businesses (Ward, 1987). Entrepreneurial activities amplify the uniqueness of family firms' produce, increasing growth and profitability (Zahra, 2003). Therefore it is essential that family-owned firms innovate and pursue aggressive business activities. However, family firms have through the years became more conservative or not capable of taking risks (Autio & Mustakallio, 2003). Originators of family firms whose desire is to leave a long-term legacy, may have conservative decisions due to the high vulnerability to failure of entrepreneurial investments (Morris, 1998) along with the risk of destroying wealth within the family (Sharma, Chrisman, & Chua, 1997). These family firms probably employ conservative approaches resulting from time-honoured organizational cultures (Dertouzos et al., 1989), which are lasting values shaping the characters of the firm and the way in which they adapt to external factors. Included in these cultures are self-concepts, histories, aspirations, and beliefs that greatly influence the disposition of the firm in supporting and undertaking business activities. The cultures of family firms build up over time; this reflects the dynamism in the relationship among the values of the owner, history of the organization, the competitive environment of markets and the national culture (Pistrui et al., 2001). These cultures are reflective of the ethnic background of the family owning and running the firm (Pistrui et al., 2001).

Entrepreneurship in the family business

There is a debate over whether a family business can be considered entrepreneurial. Studies have found several links between entrepreneurship and family businesses (Pistrui et al., 2001; Zahra, 2003). Referred to as " familial entrepreneurship," Heck et al. (1991) explained that various elements of entrepreneurship are closely associated with the family business. In fact, Heck, Trent, and Kaye (1999) suggested that most entrepreneurs are family members. In the past, the family business and entrepreneurship were treated as two separate constructs in many studies. More recently, due to the increasing significance of family business as a dominant aspect of wealth creation and national economies, studies have since used an entrepreneurial lens to studying the characteristics and dynamics of the family business (Firkin & DeBruin, 2003; Nordqvist & Melin, 2010). Entrepreneurial behaviour among family firms is considered crucial for adaptability to changes in the environment, competition, consumer preferences, and technological developments (Kellermanns, Eddleston, Barnett, & Pearson, 2008). In order to acquire the potential for long-term growth for the business, families must be able to promote entrepreneurial activity (Firkin & DeBruin, 2003).

Familial entrepreneurship in the local context

The business landscape in New Zealand hinges upon a history of successful family-owned firms including Fletcher Building, The Todd Corporation, Quality Bakers, Sleepyhead, Corban Wines, Michael Hill Jeweler, to name a few. Globally, over 70% of businesses are owned by families and 60% of the firms in New Zealand are family-owned. Despite the contributions of family businesses in the national economy, there has been no specialized focus on entrepreneurship in the family business (Nicholson, Shepherd, Woods, 2009). New Zealand is an entrepreneurial country (Frederick, Thompson, & Mellalieu, 2004). Their history is rooted in the journey of pioneers, migrants and travellers all looking for better opportunities in the frontier. Since the very early migration of the Maori 800 years ago, migrants from Asia, Europe, and the Pacific have all attempted to succeed in business ventures. Some of the challenges faced by family entrepreneurs include lack of access to venture capital, lack of funds to invest in research and development, and insufficiently skilled management (Frederick, Thompson, & Mellalieu, 2004).

Entrepreneurial concerns in the family business

Family businesses experience concerns on succession, conflict management, and strategic management issues. SuccessionSuccession or the issue of how businesses traverse across generations is a primary concern among family businesses. Most studies on family businesses have focused on the issue of succession (Kellermanns et al., 2008). Zahra (2003) opined that family ownership significantly affects the strategic choices of the family firm. The change of leadership in a family business is more difficult (Zellermanns et al., 2008). Family ownership must be retained at a higher or controlling level in order to be able to effectively pursue risk. Succession in a family business takes place in a complex social, political, cultural, and moral milieu (Schein, 1995). More often than not, succession becomes a sensitive step because of the disparity of cultural and moral values between the old and the young in the family business. Most of leaders of family firms are more conservative in decision-making than their children, and may be a stunting factor for the entrepreneurial process (Firkin & DeBruin, 2003). Active planning is closely associated with effective succession of ownerships. Planning leads to enhanced self-efficacy among successors and predecessors, clarifies goal setting, and promotes self-confidence. The importance of succession has spurred several studies related to the effective way of planning succession within family businesses (Kellermanns et al., 2008). Conflict managementConflict within the family business is common knowledge. Stories on the news, depictions in movies, and other media reflect the kind of aggression that may arise within family-owned firms. Conflict is seen as counterproductive and may spell the stagnation or failure of the business venture. When the relationships of individual members of the family business are strained, the business suffers. Kellermanns et al. (2008) cited Levin's study which outlined four areas of conflict located in the family firm: 1) the founder, 2) brother-brother or sibling rivalry, 3) father-son rivalry and 4) intra-family friction. In Levinson's study, the founder usually becomes an entrepreneur in an effort to outdo a father or to be independent from paternal control. When a potential successor like a son is imminent, founders may have issues with surrendering his " baby" [the business] which has long become a tool of prestige and power. The son may disagree with the conservative manner in which the business is handled and friction may arise between father and son on the future perspectives of the business after succession. Another important source of conflict is sibling rivalry (Nicholson, Shepherd, & Woods, 2009; Lord, 2003). Rivalry among siblings begins as a competition with parental attention as the prize. Some studies indicated that while rivalry is generally perceived as bad, it can also be positive thing provided that the competition is healthy (Lord, 2003). Intra-family friction occurs and is salient in the event of intra-generational transfers of leadership. Strategic ManagementStrategic management has become important for family businesses (Lord, 2003). Management styles of family businesses have largely been characterized as informal but experts have suggested that the increasingly competitive climate in the age of globalization has pushed family-owned firms to adopt strategic management (Nicholson, Shepherd, & Woods, 2009). Family businesses are encouraged to adopt visionary leadership, corporate accountability, and sustainability of investment. Where family businesses used to emphasize on management that featured control and conformity, globalization has pushed the need for family businesses to become more innovative and creative (Memili et al., 2010).

Summary

Family businesses have a dominant presence in the global and local business landscape today. Changing environmental and economic conditions have required family firms to adopt entrepreneurial practices. Entrepreneurship has become a need in order to spur continuity and success in the family business. Studies have suggested that the increasingly competitive business climate has changed the way family businesses are managed in order to sustain wealth creation and foster profitability and sustainability of the business across generations. Entrepreneurship is crucial to the survival, growth, and profitability of the family business. Without the adoption of entrepreneurial behaviors, family businesses will stagnate and be limited in terms of potential for growth and success.