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Entrepreneurial legacy: Toward a theory of how some family firms nurture transgenerational entrepreneurship☆

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ABSTRACT

Research shows that family firms are less entrepreneurial, on average, especially after the founder departs. There are notable exceptions, however, and so we build a new theory to explain how these exceptional firms accomplish transgenerational entrepreneurship. Specifically, we conducted in-depth interviews with owners and (potential) successors in 21 German wineries that are, on average, in their 11th generation. We introduce *entrepreneurial legacy*, which we define as the family's rhetorical reconstruction of past entrepreneurial achievements or resilience, and theorize that it motivates incumbent and next-generation owners to engage in strategic activities that foster transgenerational entrepreneurship. Entrepreneurial legacy thus helps explain transgenerational entrepreneurship and has implications for family-firm, imprinting, and succession research.

1. Executive summary

By acting entrepreneurially – i.e., being among the first to introduce new products and services, enter new markets, or adopt innovative new technologies or materials – firms are better equipped to adapt to change, compete, and gain competitive advantage (Covin and Miles, 2006; Lumpkin and Dess, 1996, 2005; Zahra and Covin, 1995). While family firms comprise a majority of firms in most countries, they unfortunately lack a reputation for engaging in entrepreneurial behaviors (Bertrand and Schoar, 2006; Block, 2012; Block et al., 2013; Bloom and Van Reenen, 2007). Some family firms do, however, engage in transgenerational entrepreneurship wherein they act entrepreneurially and do so across multiple family generations.

However, no theory to date explains how these families nurture transgenerational entrepreneurship. Prior entrepreneurship research identified family (e.g., family unity – Eddleston et al., 2012) and firm (e.g., organizational culture – Zahra et al., 2004) factors that are associated with entrepreneurship in family firms, but did not explain how these features are passed down from one generation to the next. Succession research describes processes and family attributes that characterize successful 1transfer of ownership and control — what we call 'ordinary' succession (e.g., Handler, 1990; Le Breton-Miller et al., 2004), but does not explain how

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succession can be performed to ensure that successors have the motivation and ability to act entrepreneurially. Imprinting theory suggests that it might be possible to imprint a propensity for entrepreneurship so that it survives beyond the tenure of those who worked directly with the founder (Marquis and Tilcsik, 2013), but the theory does not explain how.

To take steps toward a theory of transgenerational entrepreneurship, we perform qualitative analyses of in-depth interviews with owner–managers and potential successors of 21 multi-generation, family-owned and managed German wineries that are between 3 and 33 generations old (averaging 11 generations). We discover that transgenerationally entrepreneurial families possess what we call an *entrepreneurial legacy* – rhetorically reconstructed narratives of the family's past entrepreneurial behavior or resilience – that motivate and give meaning to entrepreneurship. Entrepreneurial legacies are imprinted in children through active involvement in the family firm and through story telling within large and cohesive families. Imprinted entrepreneurial legacies motivate current and next-generation owners to engage in three strategic activities that go beyond ordinary succession and thereby nurture transgenerational entrepreneurship — i.e., *strategic education*, *entrepreneurial bridging*, and *strategic succession*.

First, *strategic education* occurs when the older generation encourages and the younger generation embraces education and work experience in areas that are strategically relevant to the family firm's potential future entrepreneurial opportunities. Second, *entrepreneurial bridging* is a period of working together side-by-side wherein the older generation manages operations and gives the younger generation the opportunity (or entrepreneurial capacity — Penrose, 1959) to apply their strategic education. Entrepreneurial bridging leads to "entrepreneurial leaps" wherein firms engage in multiple acts of entrepreneurship in a short time. Finally, in strategic succession the older generation protects the younger generation's key resources for entrepreneurship – i.e., capital and the successor her/himself – by ensuring no sibling buyouts (to preserve capital within the firm) and by quickly integrating potential in-laws into the family (to preserve the successor as resource).

Our study offers three contributions. First, the concept of entrepreneurial legacy helps distinguish between more and less entrepreneurial multi-generational family firms. Second, our theory describes how older generations imprint the family's entrepreneurial legacy on the next generation and thereby binds the next generation's entrepreneurial spirit to (stories about) their ancestor's entrepreneurial acts. Third, we introduce and describe three strategic activities that explain how some multi-generational families leverage their entrepreneurial legacy to nurture transgenerational entrepreneurship.

2. Introduction

Entrepreneurial behaviors include creating new products and services, entering new markets, adopting innovative production technologies, developing new raw materials, and implementing new ways of organizing business activities (Schumpeter, 1934). Macroeconomic research shows that developed economies experience superior growth and job creation when the people and firms within them engage in more entrepreneurial behaviors (hereafter also simply "entrepreneurship") (Plehn-Dujowich, 2009; van Stel et al., 2005). Entrepreneurship researchers, in turn, have found that entrepreneurship helps firms adapt to change, compete, and gain competitive advantage (Covin and Miles, 2006; Lumpkin and Dess, 1996, 2005; Zahra and Covin, 1995). Accordingly, considerable effort has been devoted to understanding attributes and behaviors of individuals and firms that help them recognize and pursue opportunities to engage in potentially profitable entrepreneurship (Haynie et al., 2009; McMullen and Shepherd, 2006; Shane and Venkataraman, 2000).

Sadly, while family-owned and managed firms are among the most significant in terms of their worldwide economic impact (Ifera, 2003; La Porta et al., 1999), they engage in less entrepreneurship. Compared to non-family firms, family firms invest less in innovation, receive fewer patents, and their patents offer less radical contributions (Bertrand and Schoar, 2006; Block, 2012; Block et al., 2013; Bloom and Van Reenen, 2007; Morck et al., 2005). On average, family firms enter fewer new markets, are slower to enter when they do, and grow more slowly after new market entry (e.g., Gómez-Mejía et al., 2010; Graves and Thomas, 2004; Schulze et al., 2003). Further, families' commitment to entrepreneurship declines precipitously once control is passed from the founding to later generations (Block et al., 2013; Cruz and Nordqvist, 2012; Gómez-Mejía et al., 2007; Miller et al., 2007, 2011).

Despite empirical evidence that family firms are less entrepreneurial, many family firms compete by repeatedly engaging in entrepreneurship, often across multiple generations (Miller and Le Breton-Miller, 2005; Nordqvist and Melin, 2010; Sieger et al., 2011; Simon, 1996). For instance, the Rothschild family not only managed to remain entrepreneurial and grow for several generations, but also family members rebuilt their bank twice: once after it was seized by the Vichy government in 1940 and a second time after the French state nationalized it in 1980 (Bellow, 2003; Lewis, 2007). Thus, whereas the average family firm might engage in less entrepreneurship and lack the capacity to nurture it in the next generation, some family firms do behave entrepreneurially and do so repeatedly across multiple generations.

To date, no theory explains how these families nurture entrepreneurship across generations (hereafter, also "transgenerational entrepreneurship"). Three literatures take partial steps. First, research on entrepreneurship in family firms has identified family (e.g., family unity – Eddleston et al., 2012) and firm (e.g., organizational culture – Zahra et al., 2004) factors that are associated with entrepreneurship. Second, succession research describes processes and family attributes that characterize successful transfer of ownership and control — what we call 'ordinary' succession (e.g., Handler, 1990; Le Breton-Miller et al., 2004). Third, imprinting theory states that important features that were introduced by the founder or imposed by external conditions can become imprinted on organizations, and that "secondhand" imprinting might occur so that imprinted features can endure beyond the tenure of those who worked directly with the founder (Marquis and Tilcsik, 2013). Together, these three research streams (1) identify attributes that facilitate entrepreneurship in some family firms, (2) explain how some family firms successfully transfer ownership and control across generations, and (3) suggest that it might be possible to imprint features secondhand that lead to entrepreneurship. However, perhaps because imprinting theory does not yet explain how secondhand imprinting