

The determinants of entrepreneurial mode of entry: the family business case.

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Conference Track: People

Purpose of the research

The goal of this paper is to contribute to the sparse empirical literature on the mode of entry to a business, with a particular focus on the choice of entry of individuals with a family business background. In this paper, we apply a configurational approach on the choice between: (1) succeeding in the family business, (2) leaving it to fund a new one, and we aim at identifying equifinal configurations of characteristics leading to the different entrepreneurial entry modes.

Theoretical background, and approach

Family business succession and determinants of the entry mode

The decision to leave the family business might have a devastating impact on the survival of the existing company. The literature on family business succession short-sightedly neglects those who decide to leave the family company to start a different career. The few contributions that shed some light on this issue originate from the career choice and mode of entry literatures (see for example Zellweger et al. (2011), Brandstätter (1997) and Parker and van Praag (2012) on characteristics of the new founder *versus* the successor, and Schröder et al. (2011) on contextual factors). Despite being significant building blocks, these are clearly not sufficient to offer a clear picture of the complex phenomenon.

The broad literature on the entrepreneurial career choice suggest that the entry mode of entrepreneurs with a family business background is likely to be influenced by individual resource endowments and psychological attributes.

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Formal human capital is obtained from educational institutions. High levels of formal human capital might be positively associated with the identification and pursuit of entrepreneurial opportunities (Ucbasaran et al. 2008; Zhang et al. 2014), and in such conditions, the start of a new venture could be the preferred mode of entry (Sharma and Chrisman 1999). Empirical evidence shows that entrepreneurs with a family business background tend to privilege the investment also in informal human capital. This happens because the expected returns of a successor from an investment in informal human capital are perceived as higher, compared to investments in formal education (Fairlie and Robb 2007), even if the latter has a positive influence on the performance of the family company (Stewart and Hitt 2012; Venter et al. 2005).

Work experience is another factor associated with human capital (Becker 1964), namely labour, management and entrepreneurial experience (Bates 1995). Even if the empirical evidence shows that successors typically spend their entire career within the family business, the performance of these type of businesses are enhanced when the successor undertakes an external experience.

Individual human capital is often complemented and enhanced by leveraging on social relations, the essence of social capital (Bourdieu 1985; Portes 2000), because formal education and previous work experience may enable significant networks. Compared to other, individuals with a family business background can also rely on networks made up of kinship ties, which provide resources (Aldrich and Cliff 2003; Salvato et al. 2010; Au et al. 2013), mentoring and emotional support (Arregle et al. 2007; Chang et al. 2009), and valuable business connections for the new venture (Cruz et al. 2012; Dyer 2003).

Psychological attributes, expressed by intrinsic and extrinsic motivations, may also affect the successor's mode of entry (Stewart Jr and Roth 2001).

The construct that better represents the intrinsic motivation is the need for achievement (Carsrud and Brännback 2011). For people with high need for achievement, the entrepreneurial experience is mainly associated with self-actualization goals, namely the capacity to deliver excellent performance and accomplish tasks (McClelland and Winter 1969; Stewart Jr and Roth 2001). This suggests that high need for achievement stimulates the pursuit of entrepreneurial opportunities outside the family business, since a less 'protected' environment better suits the preference for challenging situations. This argument also involves the consideration of the individual risk propensity, which is widely acknowledge as a trait of the entrepreneur (Carland et al. 1984; Stewart Jr and Roth 2001). The successor who takes over an existing business bears lower levels of risk (Block et al. 2013), while

individuals who decide to start a new venture outside the family business, need to exhibit higher risk propensity.

Scholars have observed that the perceived importance of parental role models influences the decisions of individuals to become self-employed (Birley 1989; Chlosta et al. 2012; Schmitt-Rodermund 2004). The salience of entrepreneurial role models in the family fosters the motivation to continue in the family business since it triggers feelings of loyalty to the family (Handler 1992 Miller et al. 2011; Ward 1997).

The mode of entry can also be inspired by extrinsic motives, such as material rewards: the financial success of the initiative (Carter et al. 2003), the “perceived instrumentality of wealth” (Birley and Westhead 1994), the willingness to contribute to family welfare (Carter et al. 2003; Scheinberg and MacMillan 1988). If such goals prevail, the succession in the family business is likely to be the privileged option.

The configurational approach, first introduced in the organisation and management literature through the seminal work of Miller (1987), has been employed in entrepreneurship only marginally (see for example Gartner (1988); Covin and Slevin (1988); Miller (1983); Stevenson and Jarillo (1990)). So far, to the authors knowledge, it has not been used either to investigate entrepreneurial choice or in the analysis of the mode of entry. In our paper, the employment of the configurational approach may allow us to overcome the limits that the entrepreneurship literature has encountered (Gartner 2010). In particular, we see the choice among different forms of entrepreneurial entry, as influenced by the a number of determinants identified by the literature and never investigated as interacting elements before.

Method

The analysis was carried out on a dataset of 257 Italian entrepreneurs, from which actual entrepreneurs with a family business background are selected (N=179, see Table 1 for some descriptives).

--- Table 1 ---

Two analysis were performed – one for the successor and one for the new-venture creator – using the fsQCA software. The outcome variables and the determinants (causal conditions) are explained and reported in Table 2.

--- Table 2 ---

Findings

Table 3 reports the conventional representation of a QCA analysis (Fiss 2011): we discuss the results by highlighting the main characteristics of the 6 profiles identified from the analysis.

--- Table 3 ---

Profiles of successors: The fragile entrepreneur (1,2)

Configurations 1 and 2 are characterised by core absent conditions. We defined these entrepreneurs as *Fragile* because they lack all of those personality traits, attitudes and motives that previous literature has identified as typical of entrepreneurs (for example risk propensity Parker and van Praag (2012)).

These results are intriguing both for scholars and practitioners: for example it is interesting to further investigate whether the diffusion of the fragile entrepreneur could be the reason for the high mortality rate of family businesses after the first generation.

The small business manager (3)

Profile 3 appears to resemble what in the literature has been defined as the corporate manager (Stewart Jr et al. 1999). A successor with these characteristics (risk aversion, material need, a degree and a developed formal network) is likely to maintain (or develop) the inherited company as an efficient manager.

This profile may contribute to explain the prevalence of incremental innovation strategies among family businesses and their widespread diffusion in medium-low technology sectors where cumulative paths of accumulation of knowledge and close long-term relationships with employees, customers and suppliers play a fundamental role in the success of the company (Kwee et al. 2011).

The committed successor (4)

Successors with this profile combine intrinsic and extrinsic motivations with a risk propensity and a dedication to the family business. This is the only profile whereby the role model determinant is a present core condition and this is the reason why we defined them as Committed entrepreneurs. This finding resembles the role played by the “positive emotions towards family business” and the importance of identification with the family firm in shaping the successor's choice (Matthews and Moser 1996; Yoo et al. 2014; Schröder et al. 2011; Zellweger et al. 2011).

Profiles of new venture creators: The opportunity-driven entrepreneur (1a, 1b)

The opportunity-driven entrepreneur originates from a family business, but decides to leave the family-owned firm and start up a new one.

Entrepreneurs in this profile are likely to have started their business by exploiting an opportunity arising either from their previous experience and/or from a well-developed formal network. In partial contrast with previous analyses (Anderson and Miller 2003) family as a source of social capital is not leveraged and is somewhat “taken for granted”. The material motive is completely absent and so is the role model while risk propensity and achievement appear to be substitutable.

The two-face entrepreneur (1c)

This new founder is driven by the human capital endowment and is moved by a complex mix of motives combined with individual and social capital. The extrinsic motivation is the only missing form of motivation. This is a kind of ambidextrous entrepreneur, whereby risk propensity and achievement needs are likely to support processes of exploration and innovation whereas the role model and the support of the inner circle represents a pull towards exploitation, conservation, tradition. This profile resembles, to a certain extent, the Committed successor, but with a more developed human and social capital, and an absent material motive.

The independent entrepreneur (2a; 2b)

Carland et al. (1984) in their work distinguish between the small business owner and the entrepreneur, describing the latter as: “ an individual who establishes and manages a business for the principal purposes of profit and growth.” Even if we do not have all the dimensions to argue that these profiles correspond to Carland et al.’s profile, the presence of the achievement and material needs, the absence of the constraints imposed by the role model, and the push either from the formal circle or risk propensity, appear to suggest a strong similarity between the two.

Contributions

With this work, we contribute first of all to the entrepreneurial mode of entry literatures by applying the configurational approach and showing the importance of considering bundles of determinants and not the marginal contribution of each determinant to a final decision.

Second, by comparing effective successors and new venture creators (within a short span of time after the decision) we move a step forward from the existing contributions based on Ajzen's theory of intentions. We have also highlighted the significant role played by the Role model perception, providing additional support to the importance of social context in influencing the entrepreneurial process (Nordqvist et al. 2013, Wennberg et al. 2013). Further research could be addressed to assess whether the various profiles lead to systematically different performances.

The contributions are, however, constrained by some limitations. Even though we have concentrated on relatively recent events, the answers to our questions may suffer from "self-justification bias" (Carter et al. 2003 Golden 1992). Moreover, we distinguish between individuals that decide to succeed in the family-owned firms from those who decide to leave at the time they decided to become entrepreneurs. By doing so, we do not consider those who decide later to take over the family firm.

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Tables

Table 1: descriptives

	N.	%
N. entrepreneurs	179	
Male	148	82,7%
Central-Northern Italy	146	81,4%
Southern Italy	33	18,6%
Education (degree)	43	24%
Successor	46	25,7%
New Venture Creator	133	74,3%

Table 2: Outcome, causal conditions and measure

Variables	Items	Measure
Successor		Dichotomous (1 successor, 0 otherwise)
New venture creator		Dichotomous (1 NVC, 0 otherwise)
Role model (Shane et al. 1991; Jayawarna et al. 2013)	<ul style="list-style-type: none"> To follow an example I admire To continue a family tradition To respect my family's values 	The construct comprises 3 items; Cronbach alpha value 0.70; fuzzy form: 1 fully in, 0 fully out
Risk taking propensity (Covin and Slevin 1991)	<ul style="list-style-type: none"> It is better to invest resources in low-risk projects with certain rates of return (reverse coded) Taking risks is the best way to exploit 	The construct comprises 4 items; Cronbach alpha value 0.72; fuzzy form: 1 fully in, 0 fully out

	<ul style="list-style-type: none"> opportunities If there is a big chance of profit one can take even high risks. A “wait-and-see” posture is preferable in order to minimise the probability of making costly decisions (reverse coded) 	
Material need (Carter et al. 2003; Dubini 1989; Cassar 2007)	<ul style="list-style-type: none"> To make lots of money Improve my personal income Have access to material benefits Attain financial security for myself and my family 	The construct comprises 4 items; Cronbach alpha value 0.59; fuzzy form: 1 fully in, 0 fully out
Achievement need (Eisenberger et al. 2005; Jayawarna et al. 2013)	<ul style="list-style-type: none"> Develop new ideas Follow a personal vision Realise myself as a person Continue learning and improve my skills Succeed in the challenges of running a business 	The construct comprises 5 items; Cronbach alpha value 0.67; fuzzy form: 1 fully in, 0 fully out
Education		Dichotomous variable (1 if the individual has a graduate degree; 0 otherwise)
Experience		Dichotomous variable (value 1 if the individual had previous working experience outside the family business; 0 otherwise)
Inner circle	<ul style="list-style-type: none"> Family Friend 	The construct comprises 2 items; Cronbach alpha value 0.80; fuzzy form: 1 fully in, 0 fully out
Formal circles	<ul style="list-style-type: none"> Banks Financial institutions Consultants Clients Customers Former colleagues Industrial associations Public institutions 	The construct comprises 8 items; Cronbach alpha value 0.68; fuzzy form: 1 fully in, 0 fully out

Table 3: Results: configurations of causal conditions

	<i>Successor</i>				<i>New venture creator</i>				
	1	2	3	4	1a	1b	1c	2a	2b
<i>Personality traits and attitudes</i>									
Risk propensity		⊗	⊗	•	•		•		•
Role model	•	•	•	●	⊗	⊗	•	⊗	⊗
<i>Intrinsic motivations</i>									
Achievement	⊗	⊗		●		•	•	●	●
<i>Extrinsic motivations</i>									
Material need	⊗		●	●	⊗	⊗	⊗	•	•
<i>Human capital</i>									
Experience	⊗	⊗	⊗	⊗	●	●	●	•	•
Education	⊗	•	●	⊗	⊗	⊗	•	⊗	⊗
<i>Network</i>									
Inner circle	•	•	•	•		•	•		
Formal circle	⊗	⊗	•	⊗	●	●	●	•	
Consistency	0.181778	0.121556	0.066889	0.045333	0.062000	0.039231	0.015692	0.034769	0.058000
Raw Coverage	0.165111	0.099778	0.045111	0.028667	0.062000	0.031385	0.015692	0.019385	0.042615
Unique coverage	0.804326	0.917785	1	0.806324	0.889625	0.836066	1.000000	0.900398	0.937811
Overall solution coverage		0.377111					0.186462		
Overall solution consistency		0.861859					0.906507		