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ABSTRACT

Drawing from the agency and stewardship theory literature, this conceptual work explores the role of intrapreneurship (internal corporate venturing) in multi-generational family businesses. Specifically, governance and managerial considerations unique to family businesses are used to predict both the relatedness between a parent firm and its ventures, and how these internal new ventures are managed.

KEYWORDS: Intrapreneurship, Stewardship Theory, CEO Centrality

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Drawing from the agency and stewardship theory literature, this conceptual work explores the role of intrapreneurship (internal corporate venturing) in multi-generational family businesses. Specifically, governance and managerial considerations unique to family businesses are used to predict both the relatedness between a parent firm and its ventures, and how these internal new ventures are managed.

INTRODUCTION

Internal corporate ventures (ICVs) are entrepreneurial initiatives that originate within a corporate structure and are intended from their inception as new businesses for the corporation (Sharma and Chrisman, 1999). By leveraging their resources in new business domains, corporations practicing internal corporate venturing can benefit from increased firm growth (Thornhill & Amit, 2001; Tidd & Taurins, 1999), enhanced financial performance (Miles & Covin, 2002; Simon, Houghton, & Gurney, 1999), diversification (Sorrentino & Williams, 1995; Tidd & Taurins, 1999), the building of new competences (McGrath, 1995; Tidd & Taurins, 1999), and improved innovativeness (Day, 1994; Simon et al., 1999). Nonetheless, the history of ICV practice indicates that firms often fail in their attempts to create viable new businesses (Campbell, Birkinshaw, Morrison, & van Basten Batenburg, 2003).

The reasons why firms fail in their ICV efforts are varied; though commonly involve venture mismanagement (Ginsberg & Hay, 1994). For example, ICVs are frequently targeted at business domains that are not well understood or where the parent company has no expertise (Zahra, Nielsen, & Bogner, 1999), unrealistic strategic objectives are established according to planning processes appropriate only for more established businesses (McGrath & MacMillan, 1995), parent companies exert too much or too little control over their ICVs (Thornhill & Amit, 2001), and parent companies often fail to protect ventures from outside interference as the ventures struggle in their nascence (Burgelman & Sayles, 1988). In spite of the challenges of internal corporate venturing, Burgelman & Valikangas (2005:29) stated that it is “a strategic leadership imperative for top management to learn to better manage the ICV cycle” because of the strategic advantages they portend. Additionally, Guth & Ginsberg (1990:13) stated that “research that contributes to increasing the frequency and success of corporate entrepreneurship will, in our view, be highly valued in the academic and practitioner communities.”

The research of Hitt, Nixon, Hoskisson, & Kochhar (1999) suggests that organizational context considerations (e.g., top management team support, organizational politics) have a significant influence on the performance of corporate entrepreneurship initiatives, of which ICVs are one manifestation. Unlike other new businesses, ICVs exist not only within an external competitive context but also within the organizational context of the corporate parent, and so they frequently find themselves interacting with the other parent-corporation subunits and managers (Garvin, 2002). In the case of an ICV, the ability to pursue a creative idea within the context of an existing organization – to mobilize resources in support of its development and to bring it to fruition – is invariably affected by features of the organizational context (Dobrev & Barnett, 2005). However, there is a paucity of research on the unique organizational context of a parent firm and the effect of that context on venturing strategies and subsequent ICV performance.

Family businesses represent a unique context to investigate internal corporate venturing strategies. Family businesses have been defined as firms which consist "of the vision held for the firm by a family or a small group of families and the intention of the dominant coalition to shape and pursue this vision, potentially across generations of the same family or group of families (Chua, Chrisman, & Sharma, 1999: 35). This definition focuses on the attitudes of the various family members towards the future ownership and management of the business, attempting to transcend quantitative measures characteristic of other definitions and is further captured in discussions distinguishing between the essence versus components approaches (see, Chrisman, Chua, & Litz, 2003; Chrisman, Chua, & Sharma, 2005; Zellweger, Eddleston, & Kellermanns, 2010. In line with Kelly, Athanassiou, & Crittenden (2000), the definition is rooted in the notion of family ownership and control along with the desire to pass ownership and control to future generations. Family businesses that desire to grow - whether for the objective of generating more profit or for offering greater employment opportunities for family members – face the same challenges as those confronted by large diversified firms attempting to venture (Brockhaus, 1994). However, there is little research that has attempted to examine these issues from the perspective of family businesses (Poza, 1988). For example, the influence of the CEO in a family business may have an exceptionally strong effect on what kinds of ventures are pursued and how they are managed. Additionally, the involvement of subsequent generations in the family business may determine the extent to which the firm must grow to support additional families and, subsequently, the amount of strategic rejuvenation that must occur within the business. Finally, many family businesses look to external board members as valuable sources of information and guidance on business practices, and thus these board members may further affect the dynamic of family business internal venturing. In short, the unique dynamics of family and non-family influences on a family business produce a very unique context to investigate what kinds of ICVs are pursued and how they are pursued.

While this manuscript touts the context of the family business as a potentially fruitful domain for research on internal corporate venturing, it remains important to acknowledge here an ongoing debate in the literature regarding whether family businesses behave entrepreneurially and demonstrate risk-taking behaviors or if they avoid taking risks and pursuing new entrepreneurial initiatives due to a preference to maintain the status quo. Some of the literature on family businesses shows that some family firms become conservative, unable or unwilling to take entrepreneurial risks (Dertouzos, Lester, & Solow, 1989). This strategic rigidity may be because the founders of family firms are trying to build a lasting legacy and are wary of the perceived high risk of failure in entrepreneurial ventures (Morris, 1998), with the accompanying risk of destroying family wealth (Sharma, Chrisman, & Chua, 1997). Additionally, agency theory has been applied to the family firm to argue that family control inhibits firm growth because they are less likely to fund innovative ventures due to inefficient risk bearing, more likely to engage in managerial entrenchment, and more likely to seek wealth preservation through political lobbying (Carney, 2005; Fama & Jensen, 1983). Since family CEOs typically stay on the job three to five times longer than non-family business CEOs (Lansberg, 1999; Ward, 2004), they may take a farsighted long-term perspective that makes them hesitant to engage in risky expedients such as hazardous acquisitions or unrelated entrepreneurial initiatives, which could produce great wealth for the family (Amihud & Lev, 1999; Breton-Miller & Miller, 2006; Morck, Shleifer, & Vishny, 1990).

On the other hand, some researchers argue that the long-term nature of family firms' ownership allows them to create and invest in highly productive dedicated resources required for innovation and risk-taking (Dyer, 1996; Zahra, Hayton, & Salvato, 2004). Furthermore, family firms uniquely possess kinship-ties that are believed to have a positive effect on entrepreneurial opportunity recognition (Barney, Clark, & Alvarez, 2003). These opportunities are then pursued because owner-managers understand that the family-firm's survival depends on leveraging new markets, creating new businesses, and increasing the distinctiveness of the firm's products (Ward, 1987; Zahra, 2003; Zahra et al., 2004). Specifically, stewardship theorists (e.g., Davis, Schoorman & Donaldson, 1997) propose that stewardship theory should be considered a complementary governance perspective to agency theory. The interests of principals and agents can be aligned when the "stewards" of an organization are motivated through a combination of positive organizational actions and cooperative interests which reside outside of personal wealth maximization. With a dual focus on the individual psychological behaviors of the steward and the situational contexts of the firm, stewardship theory describes the benefits organizations receive when their executives are motivated to act in the best interests of their principals (Davis et al., 1997). An emphasis on intrinsic rewards such as opportunities for growth, achievement, affiliation, and self-actualization are examples of stewardship behaviors. The extrinsic versus intrinsic focus is a major distinction between stewardship and agency theories, with the steward's motives coordinated with the objectives of the principals, or in this case the family. Following this logic, a steward has a greater proclivity to identify with their firm, and, therefore, the steward sees the firm as an extension of themselves. In contrast, the agent often does not share this same affinity toward their organization (Brown, 1969). More specifically, stewards benefit when they demonstrate commitment to making a significant contribution to their firm's mission, financial performance, and survivability, more so than their personal economic self-interest (Davis et al., 1997). When principals and their stewards are mutually accountable, their goals and motivations are aligned.

In the context of ICVs, stewardship theory permits scholars to further explain the possible role this strategy may have on family businesses. Drawing on the role of stewardship theory in family firms (Dibrell & Craig, 2006; Miller & Le Breton-Miller, 2006), family businesses will embrace ICVs, as it will enable them to extract resources from the organization's bundle of resources from existing businesses owned by the family and from the family itself. Additionally, ICVs allow the steward manager to more aptly align their goals with those of the family business, as it keeps the steward engaged in the family business instead of being concerned with the extraction of wealth from the family business, which may put the survival of the family business in jeopardy.

While recent literature has attempted to resolve the debate through empirical examination of the antecedents to family business corporate entrepreneurship (e.g., Kellermanns & Eddleston, 2006; Salvato, 2004), scholars and practitioners alike still know relatively little about *how* corporate entrepreneurship is conducted within a family business and what unique attributes of family businesses differentiate the conduct of entrepreneurial initiatives in this context from that of the large diversified firm. The scholarly discussion summarized above regarding whether or not family businesses behave entrepreneurially is thus rooted in two primary factors: CEO behaviors and family member involvement in the business. The research question of this manuscript is not whether family businesses are entrepreneurial, but rather among those family businesses that *are* entrepreneurial, how do the CEO and other family members affect *what kind* of entrepreneurial initiatives are pursued, and *how* they are managed. By specifically focusing on internal corporate venturing, the new business initiatives adopted by the firm, this research is able to distinguish how related those new businesses are to the family firm (*what kind* of initiatives), and the degree of managerial autonomy they are granted by the family firm (*how* they are managed). By including the effects of external board members on the venturing process, this research provides a more complete governance picture of the family firm.

Prior research on internal corporate venturing has demonstrated the importance of parent-venture relatedness and venture autonomy on subsequent ICV performance. Tanriverdi & Venkatraman (2005) found that knowledge relatedness was positively correlated with performance in multi-business firms. Focusing specifically on the field of corporate venturing, Campbell et al. (2003) find that among the units they studied that were set up to develop significantly new businesses for the parent company (named “new leg” ventures by the authors, indicating little to no relatedness between the parent and the venture), none were successful. Sorrentino & Williams (1995), however, had previously found in their quantitative analysis no significant relationship between relatedness and ICV performance, leading them to postulate that perhaps the relationship between relatedness and performance is contingent on other venture-related considerations.

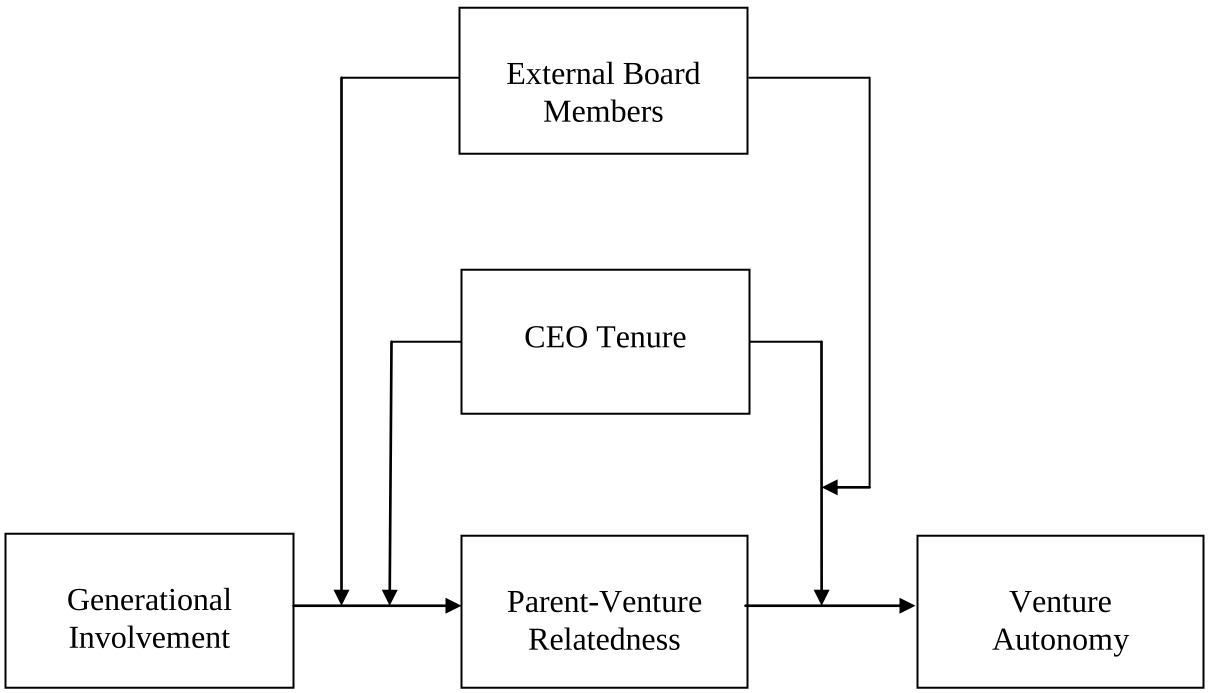
One such consideration is venture autonomy, or the amount of independence allowed to the venture by the parent company. Simon et al. (1999) argue that ventures pursuing newer, experimental markets require a great deal of freedom. Contrarily, ventures operating in relatively familiar domains for the parent firm may benefit from increased monitoring to avoid costly mistakes. Furthermore, the research of Kuratko, Covin, & Garrett (2009) finds a significant positive correlation for the direct effect of venture planning autonomy on ICV performance. While the relationships of these two variables – parent-venture relatedness and venture autonomy – with subsequent ICV performance may be complex, previous research has indicated their importance and proximal effect on performance. Thus, the current conceptual examination’s aim of understanding the effects of family business governance considerations on venture relatedness and autonomy is an attempt to fill a knowledge void in the literature regarding these two constructs instrumentally important to ICV performance.

This manuscript is structured as follows. First, propositions are developed regarding the conduct of internal corporate venturing in family businesses as informed by theory and previous research in the domains of both family business governance (i.e., agency and stewardship) considerations and corporate venturing. Then, conclusions are presented along with implications for theory and practitioners of internal corporate venturing.

DEVELOPMENT OF PROPOSITIONS

The governance of family businesses is primarily composed of the CEO, the involvement of subsequent generations or other family members beyond the founder, family members who do not work in the family-owned business but have a stake in the family-owned business, and external board members. The following theoretical development, reflected in Figure 1, explores the effects of these constituent parts of a family business on what kinds of ICVs are pursued in terms of parent-venture relatedness and how those ventures are managed by the parent company.

FIGURE 1: Conceptual Model



Parent-Venture Relatedness

The concept of relatedness has been explored within multi-business firms using a variety of dimensions in the construct of relatedness, for example: product relatedness (Rumelt, 1974), manufacturing relatedness (St. John & Harrison, 1999), technological relatedness (Robins & Wiersema, 1995; Silverman, 1999), and marketing relatedness (Capron & Hulland, 1999). Relatedness as used in the research domain of internal corporate venturing has to do with the strategic fit between the parent and its ventures and is posited to benefit the venture by increasing venture access to the parent's resources (Thornhill & Amit, 2000; Sorrentino & Williams, 1995). For ICVs, which are typically early-stage business experiments for the parent corporation (as opposed to mature businesses in a large diversified company), the most important resources possessed by the parent are product development and market knowledge resources because ICVs frequently operate in product-market domains adjacent to those of the firm's established businesses (Birkinshaw, van Basten Batenburg, & Murray, 2002; Hill & Birkinshaw, 2008; Thornhill & Amit, 2001). Thus, the definition of parent-venture relatedness used in this manuscript focuses on product and market similarity between the parent and venture. Parent-venture relatedness is the extent to which the venture is similar to other businesses of the corporation in terms of the products/services offered and the markets targeted by the venture. This definition is consistent with Kurakto et al.'s (2009) conceptualization of market/product similarity between ICVs and their parents.

Sound venturing strategy dictates that parent companies typically venture in domains that are adjacent to the firm's core businesses (Birkinshaw et al., 2002). While this strategy attempts to minimize down-side risk, it also potentially limits up-side gain and growth. While family firms are initially based in innovative ideas, they often lose their entrepreneurial momentum after a few years (Salvato, 2004) and the CEOs begin to make more conservative decisions in order to minimize the risk of failure in their ventures and the risk of losing family wealth (Morris, 1998; Sharma et al., 1997). This loss of entrepreneurial momentum can translate into low amounts of corporate entrepreneurship for first-generation family firms (Kellermanns & Eddleston, 2006), and thus high degrees of relatedness in the ventures that are pursued.

However, as subsequent generations get involved in the business, the need for rapid growth and diversification becomes more necessary in order to support a larger number of people in the family business (Poza, 1989). Indeed, family businesses owned and managed by multiple generations must rejuvenate and reinvent themselves, if they are to maintain the same level of financial performance of the previous generation (Jaffe & Lane, 2004). In sum, subsequent generations in family businesses tend to push for new ways of doing things (Kepner, 1991; Moores & Barrett, 2003), including creating new products and services and reaching new markets (Sharma et al., 1997). Thus, the family firm is directed to less related ventures as subsequent generations get involved in the ownership and management of the business.

> **Proposition 1:** The involvement of subsequent generations in a family business will be negatively associated with parent-venture relatedness.

While generational involvement is proposed to increase the amount of unrelated venturing in a family business, this relationship may be affected by other governance considerations of the family business. First, the CEO of the family business plays a strong role in the strategy of the family business. The research of Kelly et al. (2000) found that CEO centrality – the degree to which the CEO is central to the top management group network – strongly effects the strategic vision, goals, and behavior of the family firm. Of many various CEO characteristics (e.g., knowledge, ownership stake, control, and centrality) studied in the literature, CEO tenure specifically has been found to influence the type of investments undertaken by the family firm (Breton-Miller & Miller, 2006).

The lengthy tenure anticipated by CEOs of family firms leads them to take a farsighted, steward-like perspective of the business (Breton-Miller & Miller, 2009). This perspective makes them reluctant to engage in unrelated diversifications because of the increased risk attributed to these activities (Amihud & Lev, 1999; Morck et al., 1990). Additionally, when the CEO's tenure is long, his or her knowledge of the company tends to be deep (Miller & Shamsie, 2001), and so they become entrenched in the dominant logic of the business and therefore become less likely to pursue endeavors not tightly linked to the core competencies of the firm. Thus, CEO tenure acts to mitigate the tendency of subsequent generations to purse unrelated ICVs within the family business. CEOs with longer tenures in a family business will act to "correct" the influence of younger generations by ensuring that ICVs pursued are not highly disparate from the core businesses of the firm.

> **Proposition 2:** CEO tenure positively interacts with generational involvement in the family business such that the negative relationship between generational involvement and parent-venture relatedness will be diminished when CEO tenure is longer than when it is shorter.

Family businesses often procure external board members to gain objective insights into the management of their company. The three primary roles of board members are control, service, and resource dependence (Johnson, Daily, & Elstrand, 1996). The control role of board members includes monitoring managers to make sure that they do not expropriate stockholder – in this, the family – interests (Monks & Minow, 1995). This monitoring may include ensuring that firm resources are preserved for activities related to the primary business objectives of the firm instead of unrelated venturing activities. Additionally, external board members are often recruited to fulfill the resource dependence role, providing resources complementary to the core businesses of the firm (Johnson et al., 1996). Because of their expertise and knowledge in the core businesses of the company, they may be less likely to approve of managerial decisions that detract from the core businesses, thus reducing the degree to which unrelated ventures are pursued. Thus,

> **Proposition 3:** External board members positively interact with generational involvement in the family business such that the negative relationship between generational involvement and parent-venture relatedness will be diminished when there are more external board members than family internal members**.**

Venture Autonomy

Venture autonomy has been found to be among the strongest predictors of ICV success (Kurtako et al., 2009). Because ICVs seek to develop a whole new business specifically tailored to enter new and emerging markets (Block & MacMillan, 1993), they often require their own unique organizational structure, culture, and systems (Simon et al., 1999). Previous research has identified three primary types of autonomy important to ICVs (Kuratko et al., 2009). First, venture planning autonomy is the extent to which the venture's management is responsible for establishing goals, timetables, event milestones, and strategy for the venture; as opposed to corporate parent management having those responsibilities. Second, venture operations autonomy is the extent to which the venture's management team is responsible for the design of the venture's internal operations. Last, venture operations independence is based on the organizational positioning of the venture and is the extent to which the venture's operations are linked to those of the other businesses of the corporation.

Venture-level self determination with regard to strategic management decisions like goal selection, strategy formulation, and performance criterion establishment may be positive for venture performance because venture-level management often has the best knowledge of how to strategically lead their business, while parent-level management may have less complete, accurate, or timely information (Kuratko et al., 2009). However, this logic applies best only when the knowledge of parent-level managers is not applicable to the ICV, such as when the ICV is sufficiently unrelated to the parent's businesses. When the venture is related to the parent's businesses, it is reasonable that the parent will possess adequate and appropriate knowledge and expertise to gainfully participate in the venture's strategic decisions. Thus, related ICVs will manifest lower levels of venture autonomy, while unrelated ICVs will manifest higher levels of venture autonomy.

> **Proposition 4:** Parent-venture relatedness is negatively associated with venture autonomy.

However, the role of the CEO in the family firm may affect the nature of the relationship between parent-venture relatedness and venture autonomy. CEOs of family businesses are obviously entrepreneurial, especially if they are also the founder; they have already recognized one business opportunity and exploited it through the creation of the family venture (Aldrich & Cliff, 2003). As the CEO's tenure increases, his/her knowledge of the company deepens (Miller & Shamsie, 2001), and he/she grows more confident in his/her ability to manage and control it (Milliken, 1987). This increased confidence in ability to manage a business may combine with the passion of the CEO to act entrepreneurially such that the CEO tends to play a bigger role in unrelated ICVs than indicated previously. Thus, although unrelated ICVs may benefit from more autonomy, and typical management practices may follow this prescription, the CEO with a long tenure in the family firm may grapple with the temptation to become overly involved in unrelated ICVs. In essence, the temptation of entrepreneurial behavior may be too much for the tenured CEO to resist.

> **Proposition 5:** CEO tenure positively interacts with parent-venture relatedness such that the negative relationship between parent-venture relatedness and venture autonomy will be diminished when CEO tenure is longer.

Campbell, Goold, & Alexander (1995) postulate that a parenting advantage exists when a corporate parent possesses the resources and expertise to benefit its businesses. Where no parenting advantage exists, Campbell et al. (1995) suggest that parental involvement in the businesses is actually detrimental rather than beneficial, and is "meddling" rather than "helping" the business. In the case of unrelated internal corporate venturing then, parental involvement is undesirable. When a CEO gets involved in the control and management of an unrelated ICV, he or she may be fulfilling personal desires regarding involvement in an entrepreneurial venture, but may be acting to the detriment of the venture. When this is the case, external board members should act to fulfill their role of control in order to "rein in " the CEO and ensure that the unrelated ICV receives the degree of autonomy it requires to be successful. Thus, we expect a three-way interaction between external board members, CEO tenure, and parent-venture relatedness in predicting venture autonomy. The presence of external board members tends to correct the over-involvement of CEOs such that the relationship between parent-venture relatedness and venture autonomy returns to its original negative correlation.

> **Proposition 6:** External board members and CEO tenure form a three-way interaction with parent-venture relatedness such that external board members regulate the involvement of a long-tenured CEO, so that the CEO will not "over-manage" unrelated ventures.

CONCLUSION

The conceptual development presented in this manuscript provides new insight into factors that determine which ventures are pursued within a business and how they are pursued. By focusing on distinguishing features of the unique context of the family business, the propositions explore how the relatedness of ICVs undertaken by the family firm may change as new generations begin to participate in the ownership and control of the firm. Also, the tenure of the CEO and the presence of external board members are shown to influence the nature of these relationships.

The concepts presented have potentially important implications for scholars and practitioners. First, the types of ICVs pursued by firms may have as much to do with the personalities and personal wishes involved as they do with any formal planning or opportunity recognition process. Second, family firms wishing to venture into either related or unrelated business domains may encourage or discourage next generation participation in the family firm accordingly. Third, care perhaps should be taken when allowing a CEO to get involved in the management of an unrelated venture; these ventures may do better if they are left as autonomous units rather than being subject to parent-level management.

Future research should consider testing similar conceptual models to the one presented via empirical analysis. While difficult to access, such data may provide a wealth of information on the corporate venturing process, especially as it is present within family firms. Understanding the nature of entrepreneurial behavior in family firms is a timely topic that merits further consideration.

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