# FACTORS INFLUENCING ENTREPRENEURSHIP AND INNOVATION IN FAMILY BUSINESS

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Entrepreneurship and its integral component, innovation, are of vital importance for family enterprises in adapting to today's dynamic market environment. Increasing competitiveness, globalization and growing marketplace demands make developing an entrepreneurial culture an essential ingredient for success in the economy. No family firm can afford an attitude of passivity if it seeks to survive through multiple generations.

Although family firms are widely recognized as a major source of innovation, over time some become conservative and are unable to see the benefits or are unwilling to take the risks associated with entrepreneurial activities. Others develop the capacity to regenerate, allowing them to renew their operations, grow new markets, develop new skills, and adopt new strategies. A wide range of factors including family dynamics influence a company's attitude to entrepreneurship, innovation and their inherent challenges.

**Founder’s Length of Tenure**

While the importance of the founder in shaping a firm's culture is indisputable, studies show significant negative correlation between the length of the founder's tenure of control and the company's involvement in entrepreneurship, innovation and the pursuit of new ventures. This is especially true with the founder as CEO. The dual function serves to concentrate power in the founder’s hands and leads to intensification of conservatism, resistance to change, stifling of entrepreneurial activities and aversion to risk.

Notably, systems and processes development is one area where a long-tenured CEO's resistance to change can seriously impact innovation. In the first generation these systems were designed to meet the founder's needs, but they may not be properly integrated with current business operations. This causes inertia to take hold in the organization. As the business and marketplace mature and the next generation proposes changes, a crisis situation can arise. Frustrated by the constraints of working with outdated and inefficient systems, competent managers--whether non-family employees or new generation family members--seek employment opportunities elsewhere where they can use their talents. With them goes their day-to-day input, variety of skills, background, knowledge and connections. The loss of these resources results in strategic simplicity that reduces the possibility of agile responsiveness to changes in the environment.

**Risk taking**

Because the functioning of family businesses is set for a longer time horizon, greater importance is all too often attached to maintaining the founder's imprint and lesser importance is attached to innovation. In a highly conservative family enterprise, transition from founders to other leaders entails serious risks, the most significant of which is continuing a culture that overlooks the need for entrepreneurial activities. Early succession planning can help minimize this risk by grooming successors and nurturing their ability to innovate while sharpening their skills in creating an organizational culture that encourages risk taking.

The skills inherent in entrepreneurship and innovation are essential in successor leadership because the complexity of entrepreneurial risk taking presents a key challenge to family enterprises. Management of a constellation of variables; innovation, new ventures, and outside alliances can sharpen a family firm’s skills and enhance its ability to adapt to and profit from changes in the economic environment. However the effect of a family firm’s culture on its systems and decision-making processes can be profound.

**Family ownership and involvement promote entrepreneurship**

In a family business multiple members of the same family are involved as owners and managers either contemporaneously or over time. The long-term nature of family firms’ ownership allows them to dedicate the resources required for innovation thereby fostering entrepreneurship.

Research has shown that the more generations of the same owner family are active in the company, the higher the firm’s focus on innovation. Since innovation usually requires diverse knowledge bases, it has been suggested that the involvement of different and multiple generations promotes innovation by bringing fresh insights and experiences and therefore new knowledge into the family firm. Capitalizing on the talents, skills, and connections of different family members can spur innovation and facilitate venturing into new market arenas. Also members of the owner family share an incentive toward encouraging a focus on innovation because the success of their company increases their wealth.

**Corporate structure and building a culture of innovation**

Research findings argue that firms with a more flexible structure have higher rates of innovation. Flexibility in processes and procedures, open channels of communication, decentralization, and informal decision making, along with loosely coupled decision linkages and loosely defined job descriptions are associated with innovative activity. Family firms have the advantage in this respect in that they typically have flexible structures and decision-making processes.

**Clearly defined vision and mission**

The importance of a defined vision to develop its business and a business-oriented philosophy of change is key to building a culture of innovation. Other factors include consistency in decision-making on innovative projects and identification of needs in terms of opportunities to develop entirely new businesses. In this regard emphasis should be placed on training and consultancy in the areas of activity, vision, mission, competitive advantage, methods and tools for strategy implementation and control.

### Strategic Planning

The foundation of innovation: a strategic plan improves the condition of the company and secures its sustainability. Research into family business shows a positive correlation between a company's level of innovation and its commitment to solid strategic planning that includes risk-taking and innovative activities as essential elements.

### Commitment and clear involvement of top executives is essential

Successful innovation is a top-level management process. The generation and implementation of new ideas requires focus and clear guidelines. To produce innovations that result in performance advantages to the company, these processes must be properly managed within the organization. Management must plan and oversee the strategic development and deployment of resources within the organization including the setting up of multidisciplinary project teams and internal communications thus maximizing idea generation and adding critical strategic complexity.

In order to gain and sustain a competitive position in the marketplace family enterprises must be positioned to actively develop and take advantage of entrepreneurial opportunities inherent in their business model. Strong family bonds, a diverse set of skills, experience, knowledge, management experience, long-term internal and external connections available within the family group are resources unique to family businesses. Committed involvement of family members where the success of the organization serves both self and family interests are factors that strongly support a culture of entrepreneurship and innovation.