

Entrepreneurial Orientation and Family Business Growth

The extent to which a firm is entrepreneurial in its orientation determines its growth prospects. Entrepreneurial orientation is essential for the sustainable growth of any firm, family or non-family. Entrepreneurial orientation is characterized by three interrelated but independent dimensions: innovativeness, risk taking, and proactiveness. A business can be high on one or two dimensions but not necessarily on all three. It has been found that the effect of entrepreneurial orientation on a firm's growth is contingent on the external (environmental) and internal (organizational) factors. Entrepreneurial orientation results in high growth when the external and internal factors are properly aligned; in other words, for high growth, certain characteristics of the environment should be well aligned with certain characteristics of the organization.

Family business is a particular context for entrepreneurship. Family firms are created as a consequence of the entrepreneurial behaviour of one or more founders who decide to explore and exploit an opportunity; however, to survive and grow in the long run, it is critical that the original entrepreneurial orientation is sustained across the generation. In other words, maintaining a transgenerational entrepreneurial orientation is an imperative for the perpetuation of family business. However, in family firms, the overlap of two disparate systems—family and business—creates specific sets of resources and capabilities that may either facilitate or impede entrepreneurial activities. In the context of family firms, under what condition does entrepreneurial orientation determine growth?

In a recent study by Casillas et al (2010) it has been found that entrepreneurial orientation as the determinant of the growth of family firm is contingent on two external factors—environmental dynamism and environmental hostility—and one family specific internal factor—generational involvement. In their study of 317 Spanish firms, the authors reported that: (1) When environment is dynamic, a high proactiveness is related to growth. That means in dynamic environment, family firms should behave in a proactive manner to grow the business. (2) When environment is hostile, high risk taking contributes to growth. That means to pursue growth in a hostile environment, family business must take certain levels of risks. As family businesses are usually risk averse, this result is particularly interesting. (3) Entrepreneurial orientation positively influences growth more in family businesses that are in second or subsequent generations than at the founder stage or first generation. One of the reasons for this could be that founders become less entrepreneurial after a period of time from the creation of the business, whereas, for the second generation members, growth becomes a higher priority objective. Overall, the results of the study confirms that alignment of external and internal factors is critical in order to sustain the growth of family firms through entrepreneurial orientation.

Source: Casillas, J.C., Moreno, A.M., and Barbero, J.L (2010) A Configurational Approach of the Relationship Between Entrepreneurial Orientation and Growth of Family Firms. *Family Business Review*, 23(1), 27-44.