

Portfolio Entrepreneurship in Family Firms

– Philipp Sieger, Thomas Zellweger, Robert S. Nason and Eric Clinton

Portfolio entrepreneurship refers to individuals / families who concurrently own and engage in multiple entrepreneurial interests. Portfolio entrepreneurship has attracted significant scholarly attention. It is particularly relevant in the family business context. However, there is a need to improve our knowledge of the process through which portfolio entrepreneurship develops in family firms. Researchers Philipp Sieger, Thomas Zellweger, Robert Nason and Eric Clinton studied this phenomenon through four in-depth case studies of family firms.

Portfolio Entrepreneurship in Family Business Context – The authors suggest that portfolio entrepreneurship is particularly relevant in the family business context because there are multiple motivations for family firms to engage in portfolio behaviour (i.e. reasons for business diversification). Some of those include – seeking growth while protecting firm’s core activity, diversifying risks and facilitating succession. In essence, portfolio entrepreneurship is a process through which entrepreneurial diversification occurs. The authors opine that portfolio entrepreneurship is relevant in family firm context for three reasons –

- a.) **Family dynamics** - because it influences decision to adopt portfolio strategies
- b.) **Longer time horizons of family business** – which allows complexities of diversification to emerge *and*
- c.) **Desire for risk diversification** – family firms incline towards portfolio behaviour as they wish to diversify risk and generate more income opportunities and employment for family members.

Study and Findings – The authors analysed four in-depth family business case studies from Europe and Latin America to understand their portfolio entrepreneurship behaviour. The authors found that there are six critical resources that family firms employ in the process of portfolio entrepreneurship. They also posit that the importance of these resources varies over time.

The six resource drivers of portfolio entrepreneurship process are:

1. **Industry Specific Human Capital** – i.e. knowledge of specific products, technologies, industry stakeholders, industry players, technical skills, and experience with industry-related projects.
2. **Meta-Industry Human Capital** – i.e. knowledge, skills, and experiences of general entrepreneurial activities, that are independent of industry context like, knowledge and skills about how to start a firm, run a business, or manage a portfolio of businesses.

3. **Industry Specific Social Capital** – i.e. networks in industry through which resources can be accessed like contacts to stakeholders, competitors, industry players, and politicians.
4. **Meta-Industry Social Capital** – i.e. networks that grant access to resources across industry boundaries like relationships with business families from different industries, global stakeholders, and general business contacts outside a specific industry.
5. **Industry Specific Reputation** – i.e. stakeholders' perceptions about the firms' or the owning family's abilities within the industry.
6. **Meta-Industry Reputation** – i.e. stakeholders' perceptions about the firm's or the owning family's general business and entrepreneurial abilities.

Based on their in-depth case studies, the authors suggest that building up industry-specific human capital is the first step in portfolio entrepreneurship process. This initial knowledge helps a family firm in establishing its credibility and competence advantage in the industry it operates. This creates a favourable reputation of the firm and the controlling family. The reputation helps in building industry network. This network provides access to business opportunities and leads to the first wave of portfolio entrepreneurship activities (i.e. diversification).

With passage of time, the family firm acquires knowledge about how to do business across industries and how to manage a portfolio of firms. Subsequently, the firm and the owner families earn a reputation for being highly entrepreneurial with broad interests spanning across industries. This reputation helps in building global networks to other firms and business families that help attract more diverse business opportunities leading to a second wave of portfolio entrepreneurship activities. The authors caution that it is possible that this process may not strictly be sequential and may overlap at times.

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