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# 1 Introduction

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*The following chapter will focus on the introduction of the problem this thesis is trying to address. First, an initial insight on the background in the related research fields will be given. Following, the problem will be presented and the resulting research questions will be formulated. Finally, the delimitations of this research will be described and some key definitions will be introduced to set a common understanding for the further chapters.*

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During the last years, family businesses have proven their importance in the different countries all around the globe. Family-owned companies have concentrated the attention of scholars, governments, international organizations, consultancy firms, and businesses in general. Succession, governance, conflicts, culture, and leadership are just some of the studied fields within family business. Consequently, the present study aims to contribute to these efforts by combining the family business and entrepreneurship spheres towards a greater understanding on the family firm's ability to create transgenerational wealth through the transfer of certain entrepreneurial mindsets and capabilities.

Entrepreneurial family businesses all over the world have revealed real commitment to innovation, undertaking new ventures and transforming businesses through strategic renewal. Moreover, the family influence on the resources and capabilities they possess impacts their ability of creating competitive advantage and value across generations. This study will ascertain this process by focusing on the effects of social capital as a key resource that naturally emerges from the relationships and woven networks among all the different stakeholders linked through these organizations. Furthermore, it will deeply analyze how social capital relates to the ability of these firms to act more innovative and proactive on the entrepreneurial journey of value creation.

Chapter 1 will start by stating the importance of conducting further research in this field, and will explicitly show the main problem this case study is trying to address, as well as its purpose and the research questions being used as guidelines. Moreover, the delimitations are outlined and key definitions are given as basis. Chapter 2 will provide a literature review presenting previous research on the topic, followed by the main theories regarding family businesses, corporate entrepreneurship and this form of businesses' transgenerational potential. Furthermore, these theories' implications in the present study will be discussed in Chapter 3, Implications for Research. Subsequently, Chapter 4 will describe the applied method providing an understanding for the in-depth case study presented in Chapter 5. The case study, based on the Bolivian company Coronilla S.A., will illustrate some of the introduced relationships in the Literature Review, plus reveal new ones among the family firms' social capital, and their ability of acting innovatively and proactively in a given context. Finally, Chapter 6 and 7 will present the conclusions of this study and discuss its further implications for research.

## 1.1 Background

### 1.1.1 Why family firms?

In most of the countries, family business is the most common form of business nowadays. Therefore, it has a significant impact on the economy and employment in several sectors and industries (Habbershon & Pistrui, 2002). Moreover, Habbershon (2006) points out the importance of families for communities and countries in terms of long-term economic and social wealth. He also declares that family businesses in the United States contribute to 64 percent of GDP and 62 percent of the workforce. In Italy, Spain and Brazil, over 90 percent of the businesses are controlled by families (Habbershon T. , 2006). Referring to Sharma and Nordqvist (2008), the interest in family business research increased because researchers recognized the

unique context of family firms and the distinctive resources and capabilities that cause ambiguous and imperfectly imitable competitive treasures.

As several studies explore and confirm the economic and social importance of this form of business, it is significant to notice that most of these studies were performed in more developed economies, such as European countries and the United States, leaving aside emergent economies such as the ones found in Latin America or Asia. For instance, Poza (1995) states that in the Latin American region family-owned firms constitute from 80 to 98% of all private enterprises. However, as a first attempt to confirm and prove the importance of the family-owned form of business all over the world, the International Family Enterprise Research Academy (IFERA) performed a study to quantify this significance in terms of Gross Domestic Product (GDP) and employment contribution. Furthermore, when referring specifically to Latin America the study states that the overall majority of businesses in this region are family-owned and run, where Brazil shows figures of almost 90% and other countries such as Argentina, Chile, and Uruguay stay around 65% of the total number of firms. Moreover, their contribution to the national GDP reaches levels that vary from 50% up to 70%, underlining, one more time, the real significance of this type of business and the still existing need of continuing research on this subject.

Besides the economic value of family firms, Gallo (2004), in his research about family firms and social responsibility, discusses the role of families in society. Referring to him, family firms are involved in many social activities like education and awareness and protection of the environment; therefore, play an important role in creating social responsibility.

However, contradictory to the importance of family businesses in the economy and society, not much research has been undertaken in this field until the recent years. Yet, lately increasingly, more in-depth research in family businesses has been conducted (Sharma P. , 2004). As Habbershon and Pistrui (2002) discuss in their paper, that family business is associated mainly with negative issues such as small business, stagnant, nepotism, conflict resolution, succession planning, and family management. However, when discussing family business issues, they also refer to other concepts like wealth creation, entrepreneurial orientation, performance, high-growth companies, dynamic companies, dynamic marketplace, opportunistic risk taking, strategic experimentation and finding supernormal returns.

Referring to Habbershon and Pistrui (2002), recently family firms are more often associated with entrepreneurship and successful growth strategies. Moreover, Sharma (2004) points out that there is an increasing interest, in terms of the number of articles written, in this field. This awareness is also reflected in the fact that more family business foundations and institutions are established. In addition, family firm associations have also started to play a more active role in this process, which demonstrates the interest for in-depth knowledge in this field (Habbershon & Pistrui, 2002). Furthermore, Habbershon and Pistrui (2002) claim that knowledge creation is necessary to further improve the praxis which in turn will support family business managers to understand the phenomena that appear daily in family firms. In response to this trend, organizations such as the STEP<sup>1</sup> project, which will be presented in more detail in the Method Chapter of this study, emphasize the need to understand the underlying features that allow the family firm to behave entrepreneurially.

In summary, there is a growing interest in family firms due to its important and unique internal environment. However, the need of explaining the impact of family ownership and involvement on the firm's outcomes, in terms of entrepreneurial and wealth-creation potential, calls for further

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<sup>1</sup> The Step project is a global research project that aims to investigate and understand how families and their businesses develop and pass on entrepreneurial mindsets and capabilities from one generation to another. Moreover, it carries out research in close collaboration with a large number of academics and family business owners and managers from around the world and is currently active in Europe, Latin America and Asia-Australia (CeFEO, 2008).

empirical research in this area. Lastly, the way family firms are governed and operated differs from the non-family firm's practices and provides a setting where these unique circumstances can influence their entrepreneurial orientation and performance (Habbershon & Williams, 1999).

### 1.1.2 Why corporate entrepreneurship?

In the research literature, corporate entrepreneurship has been related to an important part of the company's growth strategy (Kuratko, 2007). As Kuratko (2007) defines in his book, corporate entrepreneurship is simply a process of organizational renewal. Moreover, he points out the use of two different phenomena regarding corporate entrepreneurship, new venture creation within existing organizations and transformation of on-going organizations through strategic renewal. Besides, lately, several definitions have been formulated within the literature trying to explain the concept of corporate entrepreneurship and pointing out its relevance for growth and development (Kuratko, 2007).

Morris, Kuratko, and Covin (2008) differentiate two issues concerning corporate entrepreneurship, corporate venturing and strategic entrepreneurship. They claim that these are two strategies that can be discovered in a company and, in addition, describe corporate venturing as a strategy to create new businesses. Strategic entrepreneurship, on the other hand, is described as related to opportunity and advantage seeking behaviors, which do not necessarily have to be associated to creating new businesses (Morris, Kuratko, & Covin, 2008).

Nowadays, companies have to face a rapidly changing environment and stiff competition, which require organizational flexibility in order to react on the changes. Corporate entrepreneurship could support the organization to stay competitive and keep up with the renewal needs (Lumpkin & Dess, 1996). Consequently, corporate entrepreneurship has become increasingly important and has a proven a positive influence on organizational wealth creation, as well as on profitability and growth (Antoncic & Hisrich, 2004).

For a company aiming to build corporate entrepreneurship, it is necessary to emphasize the entrepreneurial behavior and understand how it is influenced by several antecedents (Kuratko, 2007). Some of the main antecedents influencing corporate entrepreneurship spotted by Kuratko (2007) are the incentive and control systems, the culture, the organizational structure, and the managerial support.

Accordingly, entrepreneurial strategies have become increasingly important for large and, also, small and medium sized companies. Thus, they apply entrepreneurial action more regularly (Kuratko, 2007). The advantages of corporate entrepreneurship provide the opportunity to generate new funds, stimulate growth in terms of sales and return on equity, increase the number of employees and the size of the market share, and even, increase the return on sales, and on assets (Antoncic & Hisrich, 2004).

So, why is corporate entrepreneurship important? Because it can ensure the companies' survival in the market and can be used as a strategy, very commonly chosen, to grow and increase profits. Staying innovative, increasing the productivity of the organizations and being able to adapt to changes, are significant issues, companies nowadays have to deal with. Choosing corporate entrepreneurship as the strategy can help to achieve those objectives, face such issues, and prevent the company from failure and stagnation.

### 1.1.3 Why transgenerational entrepreneurship?

As stated above, corporate entrepreneurship ensures survival and prevents stagnation, however now it is time to shift the attention to understand how this process is specifically achieved in family firms and thus, how to foster it across generations. Initially, the link between family business and entrepreneurship studies followed a common *denominator approach*, focused on elements both theories share, such as small business management, entrepreneurial couples,

transition and succession, or culture (Habbershon & Williams, 1999). However, this approach started to move towards a new research perspective that not only includes the families as key players in this arena, but also identifies them as the new unit of analysis. Consequently, Nordqvist, Zellweger and Habbershon (2009), with the aim of including the *family's role* into this 'individual-organization' perspective, adopt the notion of *"enterprising families as business families that strive for transgenerational entrepreneurship and long-term wealth creation through the creation of new ventures, innovation and strategic renewal"*. Going back to the fact that the great majority of business worldwide are family-owned and controlled, the importance of keeping these organizations alive and growing, highlights the role of these enterprising families as the ones reinforcing growth, based on a family's long-term perspective (Nordqvist, Zellweger, & Habbershon, 2009).

Miller (1983) defines an *"entrepreneurial firm as the one that engages in product-market innovation, undertakes somewhat risky ventures, and is first to come up with proactive innovations, beating competitors to the punch"*. Each of the elements mentioned in the previous definition – proactiveness, innovation and risk-taking – together with competitive aggressiveness and autonomy, which were lately added by Lumpkin and Dess (1996), define the firm's way of acting entrepreneurially. In the family business context, an entrepreneurial family firm has particular characteristics that can influence its entrepreneurial activities, processes and outcomes (Nordqvist, Zellweger, & Habbershon, 2009). This specific characteristics, referred by Habbershon, Williams, & MacMillan (2003) as *"familiness"*, result from the interplay among certain family-influenced resources and capabilities. Moreover, adopting the resource-based view as a source of competitive advantage, Habbershon, Williams & MacMillan (2003) proposed these idiosyncratic resources and capabilities as key elements influencing the family firm's transgenerational wealth creation.

Nordqvist and Melin (forthcoming) call for further research concerning the different dimensions of transgenerational entrepreneurship. They point out transgenerational entrepreneurship, *"as the process through which a family uses and develops entrepreneurial mindsets and family influenced capabilities to create new streams of entrepreneurial, financial and social value across generations"* (Nordqvist, Zellweger, & Habbershon, 2009). Moreover, transgenerational entrepreneurship is referred to as the mean to further analyze and understand the specific factors and conditions enabling this transfer and value creation process throughout generations (Nordqvist, Zellweger, & Habbershon, 2009). Given this context, this paper will focus on two key dimensions of family firm's entrepreneurial orientation, innovativeness and proactiveness. The influence of these two elements in the entrepreneurial profile of the present case study, illustrates the importance of achieving a better understanding about the forces affecting these dimensions and internally interacting among them. Moreover, the importance of these two dimensions can be emphasized by the way family firms engage with innovation, stressed by Nordqvist, Zellweger, & Habbershon (2009) as a crucial issue when it comes to sustaining the firm's viability in the competitive environment, and anticipating throughout the process of pursuing new opportunities in such context.

Finally, as family businesses' value creation ability has been attributed to the way they recombine resources, Salvato and Melin (2008) have proposed an integrative approach that reflects the importance of social capital as an *engine of family-specific strategic processes*. Moreover, from the *"familiness"* point of view, the family firm's social capital, in terms of relationships and networks, is a topic that requires attention in order to reveal its real importance and have an impact on the firm's performance. Nordqvist, Zellweger, & Habbershon (2009), not only call for attention towards revealing the real role of social capital in the family firm's entrepreneurial behavior, but also underline the importance of examining the resources to facilitate the identification of the how they allow the organization to act more entrepreneurially. Analyzing family firm's social capital structures and how they contribute to the creation of competitive advantage, can also reveal its impact on the firm's entrepreneurial orientation and thus, its facilitating or constraining function towards certain dimensions such as innovativeness or proactiveness. Finally, by integrating an entrepreneurship approach to the family business theory, the possibilities of

knowledge creation and new business practices will be expanded. What is more, this integration can reveal fundamental relationships within the family business entrepreneurial approach and serve as a catapult to explain economic growth and development.

## 1.2 Problem

Now that the importance of family-influenced firms has been stated and emphasized as an engine for economic and entrepreneurial development, as well as a potential setting for creating wealth across generations, it is important to clarify how all these issues can be addressed and successfully achieved. As mentioned before, due to its economic relevance and central role in the entrepreneurial economy, several efforts have been undertaken in order to appraise these matters. So far, scholars, business leaders and policy makers have focused their attention towards a better understanding of the underlying connections between entrepreneurship and family firms. However, the opportunities of continuing to understand and unveil significant elements that may cause an impact of families in the entrepreneurial process remain unlimited. Due to the family's influence on the resources and capabilities and its ability to recombine them in order to create a competitive advantage, the family business setting represents an appealing context to analyze corporate entrepreneurial activity. Lastly, it is the long-term value creation that spans through family firms' generations, what strikes for attention in the research sphere.

This study acknowledges the missing link between theories of the *entrepreneurship* and *family business* fields and joins the efforts to understand the relationships between family-influenced resources and capabilities, the family firm's entrepreneurial orientation, and the way this interaction influences the creation of transgenerational wealth. Moreover, considering the need of developing an integrative perspective between family-influenced resources and the family's "*way of doing business*", this research will focus on the family-shaped resource, social capital, and its relationship with the firm's entrepreneurial orientation, specifically in the areas of innovativeness and proactiveness. In this particular case, these dimensions' significance, as key attitudes to maintain competitiveness and to pursue new opportunities, call for a more in-depth analysis on how continuity and survival are achieved. Furthermore, given the essence of the family, as a social nucleus where many interactions take place both internally and externally, its impact on the organizations they control could be assumed as an obvious result that at the same time shapes the way they function and develop strategies. However, so far, social capital has remained as an overlooked topic in the field of family business, where regardless the intense social interactions that are assumed to take place, there are multiple connections, between these and the firm's entrepreneurial activity, that remain disengaged.

This thesis intends to discuss and explore, under the umbrella of entrepreneurship in the context of family firms, the way these interactions influence competitive advantage, value creation, and transgenerational potential. Moreover, to comprehend this problem, this study will focus on the family firm's creation of transgenerational wealth, based on the transmission of specific entrepreneurial mindsets and capabilities specifically in the particular field of social capital. In addition, it will analyze the social interactions among the family members and non-family agents, the way they contribute to the firm's ability to act entrepreneurially in terms of innovativeness and proactiveness, and its behavior across generations. The understanding of this phenomenon will serve not only as a basis for further research and provide an empirical approach to family business theory, but will also draw new connections and findings among this family-oriented entrepreneurial system.

## 1.3 Purpose

The purpose of this research is to enhance the understanding of transgenerational entrepreneurship by combining the theoretical framework with empirical evidence provided by the in-depth case study methodology. In order to achieve this purpose, this thesis aims to



identify, capture, and analyze how the forces of entrepreneurial orientation, innovativeness and proactiveness, and the family-influenced resource, social capital, interact to create value across generations.

This purpose supports the need of reinforcing the theoretical foundation of entrepreneurship in a family business context, and serves as a basis to define this study's direction. Moreover, considering the role played by family-owned firms in each country and how they manage their businesses, this study will contribute with the empirical case of Coronilla S.A., a family firm located in Bolivia, to enrich the overall understanding and add new findings regarding this type of business in this particular context.

#### **1.4 Research questions**

Based on the purpose that this study attains to reach and the main issues to be analyzed, the investigation will be conducted following the subsequent research questions and sub-questions.

1. How is the resource social capital influencing the family firm's entrepreneurial orientation dimensions, innovativeness and proactiveness?
  - 1.1. How can social capital enhance family firm's behavior to act more innovative and proactively?
2. How does social capital influence performance in this particular entrepreneurial orientation-context?
3. How does the entrepreneurial orientation, influenced by the firm's social capital, affect the transgenerational potential in terms of innovativeness and proactiveness?

#### **1.5 Delimitations**

The delimitations of the present study are presented in order to clarify the aim and scope guiding this research. Given to the previously mentioned importance of family businesses as a unique context in the business field, this study was conducted specifically focusing on *family firms*. Thus, the analysis of both the theoretical framework and the empirical data will be narrowed to this particular context. Another delimitation of this research, related to the entrepreneurial orientation dimensions and the family-influenced resources and capabilities, is the specific focus on only two of the dimensions and one particular resource. Therefore, the research will center the attention on the causes and effects of *social capital* on the two entrepreneurial orientation dimensions: *proactiveness and innovativeness*. Moreover, it will focus on its implications on family firms' performance and transgenerational value creation. Consequently, this study does not claim to present findings that are embracing all aspects of the transgenerational entrepreneurship framework, nor can be generalized to a larger group of firms; yet, it will fulfill its purpose of creating greater understanding and knowledge in this area.

Following the in-depth case study methodology, this research will be based on a *single case* study. This approach is in line with the purpose of achieving a better understanding, yet limits the chance of comparing and considering family firms with different characteristics, such as industry, life stage, or country of operation. Regarding the latter feature, by studying a Bolivian company, the study emphasizes the particularities and details of this case and does not aim to be extended to a larger and geographically dispersed group of family firms.

#### **1.6 Key definitions**

The subsequent sections display the different definitions for the terms used in this study providing a common understanding.

### **1.6.1 Family business**

This study is based on the characterization of *“family business as a type of organization, or organizational context, with certain characteristics that can facilitate, or constrain entrepreneurial activities, processes and outcomes”* (Nordqvist & Melin, forthcoming). Moreover the formal definition adopted for this research is the one given by Miller & LeBreton-Miller (2005) which defines a *“family controlled business as a public or private company in which a family (or related families) controls the largest block of shares or votes, has one or more of its members in key management positions, and members of more than one generation are actively involved within the business”* (Miller & LeBreton-Miller, 2005). This term will be also referred to as family firm and family-owned business.

### **1.6.2 Corporate entrepreneurship**

At a firm level, corporate entrepreneurship will be understood as the firm's ability to act entrepreneurially. The definition that this study will adopt refers to Miller (1983), who explains the entrepreneurial activity of the firm as a multidimensional concept where *“the entrepreneurial firm engages in product-market innovation, undertakes somewhat risky ventures, and is first to come up with proactive innovations, beating competitors to the punch”*.

### **1.6.3 Transgenerational entrepreneurship**

The present study will consider *“transgenerational entrepreneurship as the processes through which a family uses and develops entrepreneurial mindsets and family influenced capabilities to create new streams of entrepreneurial, financial and social value across generations”* (Nordqvist, Zellweger, & Habbershon, 2009).

### **1.6.4 Entrepreneurial orientation (EO)**

The transgenerational entrepreneurship framework understands EO *“as a measure for entrepreneurial mindsets and attitudes<sup>2</sup> from actual entrepreneurial performance, which is measured in terms of the sum of an organization's innovations, strategic renewal and venturing efforts”* (Nordqvist, Zellweger, & Habbershon, 2009).

### **1.6.5 Social capital**

Social capital is defined as *“the social network of relationships possessed by an individual or social unit, and the sum of actual and potential resources embedded within, available through, and derived from such network”* (Salvato & Melin, 2008).

### **1.6.6 Innovativeness**

The innovativeness of the entrepreneurial orientation can be measured as the *“firm's tendency to engage in and support new ideas, novelty experimentation, and creative processes that may result in new products, services, or technological processes”* (Lumpkin & Dess, 1996; Nordqvist, Zellweger, & Habbershon, 2009).

### **1.6.7 Proactiveness**

The definition adopted by the present study understands proactiveness as the *“processes aimed at anticipating and acting on future needs by seeking new opportunities which may or may not be related to the present line of operations, introduction of new products and brands ahead of competition, strategically eliminating operations which are the mature or declining stages of life cycle”* (Lumpkin & Dess, 1996). Moreover, the transgenerational entrepreneurship framework understands it as the way how *“a firm takes strategic initiatives by anticipating and pursuing new opportunities”* (Nordqvist, Zellweger, & Habbershon, 2009).

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<sup>2</sup> Entrepreneurial mindsets are the attitudes, values and beliefs that orient a person or a group towards pursuing entrepreneurial activities (Nordqvist, Zellweger, & Habbershon, 2009)

## 2 Literature Review

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*The purpose of this chapter is to give an in-depth overview of the current literature and research conducted in the field of family business, corporate entrepreneurship, transgenerational entrepreneurship and social capital. First, the research carried out in the fields of family business in general will be outlined, describing some significant frameworks and findings of previous studies in that area. This will be followed by an overview of the research field corporate entrepreneurship, defining the concept, its process and link to family businesses. Subsequently, the transgenerational entrepreneurship framework will be explained and discussed, giving an insight into the concept of entrepreneurial orientation, clarifying its connection to specific environmental influences, internal resources and capabilities, and showing its effects on the family firms' performance creating transgenerational potential. Following, an overview of recent research within the fields of social capital and family firms will be presented. Finally, the chapter will be concluded by outlining the implications of this literature review for this paper's case study.*

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### 2.1 Family Business Research

As described previously, the focus on family business research increased during the last years. This can be explained by the great impact family businesses have on the economy and by the unique environment of the family firms that has been discovered (Habbershon & Pistrui, 2002). Miller & LeBreton-Miller (2005) define a "family controlled business as a public or private company in which a family (or related families) controls the largest block of shares or votes, has one or more of its members in key management positions, and members of more than one generation are actively involved within the business" (Miller & LeBreton-Miller, 2005). Habbershon and Williams (1999) state that compared to non-family businesses, family businesses have a unique working environment. Habbershon and Williams (1999) describe the internal environment of family firms as family-oriented, where employees are treated "nicely", which causes higher loyalty than in other businesses. Besides, they argue that family businesses can be described as rather informal, meaning that they are very flexible and do not have a very strict organizational structure, which facilitates a trust-based decision making process. Furthermore, they say that the high influence of the family creates a family culture within the company and leads to an environment that supports trust, high identification with the firm and highly motivated employees, especially the ones being members of the family. This efficiency not only decreases costs in terms of labor and other resources, but also allows having a more informal and faster flow of information (Habbershon & Williams, 1999).

Described in previous research, the decision-making process in family firms is mostly centralized and the main responsible people are members of the family (Habbershon & Williams, 1999). Family firms, as discussed by Habbershon and Williams (1999), tend to strictly follow their vision and mission and set clear long-term goals for the future; whereas the values and goals that the owner-family embraces and represents, mainly influence the values and goals within family firms, demonstrating that the company is influenced to a large extent by the family culture. In terms of internal and external relationships, family firms are described in the literature as firms that build strong relationships with partners, and create large networks. Moreover, these relationships turn out to be very personal, and cannot be destroyed easily later on, which also distinguishes family businesses from other businesses and may cause a competitive advantage. (Habbershon & Williams, 1999).

The accomplishment of family business success depends greatly on how the business manages to pass on the business to the next generation (Habbershon T. , 2006). Habbershon defined the transgenerational concept as the way "how families adopt the entrepreneurial mindset and capabilities to generate new economic activity within each generation, which in turn creates continuous streams of wealth across many generations". To ensure this success, says Habbershon (2006) more awareness of failure reasons is necessary, and family businesses need to know how they can avoid failure and how to deploy their resources to generate transgenerational wealth.

In addition, until recent years, no adequate performance model had been developed in order to analyze the impact of the unique family-characteristics on the business and its performance (Habbershon, Williams, & MacMillan, 2003). Consequently, Habbershon, Williams and MacMillan (2003) acknowledged this gap in the literature and developed the *Unified Systems Model*, which will be discussed later on. Moreover, as a different example of recent focus, the transgenerational entrepreneurship framework, which will be explained in the subchapter Transgenerational Entrepreneurship, was developed jointly between researchers from the European STEP Partner Universities during the period 2005-2008 to also address these issues.

To provide an overview of recent research done in the family business sector, the following section will give insight into different models and concepts describing the specific context of family businesses in more detail.

### 2.1.1 Integrated Systems Approach

#### Dual systems model

As described before, family businesses have unique characteristics deriving from the fact that a family business embraces two social subsystems, the family and the business (Habbershon, Williams, & MacMillan, 2003). Referring to Habbershon, Williams and MacMillan (2003), the circle models explain the different purposes and interests of a family firm, meaning they demonstrate to what extent interests are either conflicting or overlapping.

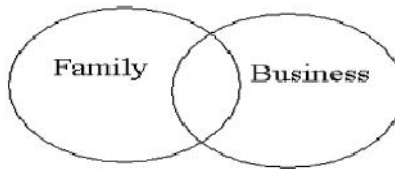


Figure 1: Dual systems approach. (source: Hollander, 1983)

The *Dual Systems Approach* was developed, first, by Hollander (1983) to demonstrate the main difference between non-family businesses and family businesses and to outline the unique characteristics of family firms. The dual system approach consists of two circles, which differentiate two systems, the *family* and the *business* (Figure 1). The two systems are characterized by different traits and purposes as described subsequently.

#### 1. *The family*

Habbershon et al. (2003) describes the family system as emotional driven; it is mainly about tradition, family culture and identity. He says that the most important for the family is to keep the family traits and characteristics within the firm and focus on what the company stands for and represents.

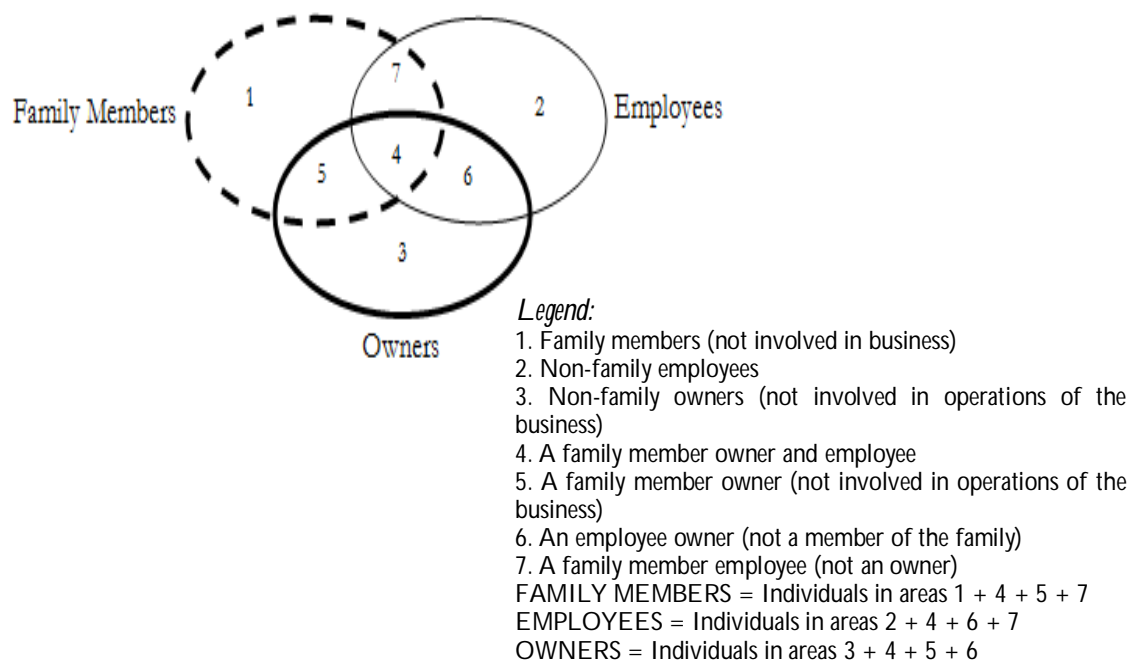
#### 2. *The business*

The business system, discussed by Habbershon et al. (2003), is fact-driven, stands for making profit by developing the required skills and follows the right strategies to become a profitable business.

As Whiteside and Brown (1991) discuss, these distinct areas show the uniqueness of family businesses and the contradiction between the two subsystems. The degree of the circle overlap, as mentioned by Habbershon et al. (2003), demonstrates the different intentions of the systems and constitutes the main difference of the family business compared to other businesses. Hence, the combination of the two systems leads to unique resources and capabilities that require a different strategic approach (Habbershon, Williams, & MacMillan, 2003).

Stakeholder Model – The different roles within a family business (Sharma & Nordqvist, 2008)

Sharma and Nordqvist (2008) discuss the integrated systems approach and evaluate the different models that have been developed. One emphasis of their literature discussion, points out the relevance of the stakeholder model, and describes the different roles within a family business. Moreover, they say that the integrated systems approach is derived from the issue that family businesses consist of two different subsystems (as described in the dual systems approach), which needs to be integrated to manage the emerging conflicts. They further explain that these conflicts derive from the different roles the family members have to take, being a family member, a manager and an owner at the same time. Consequently, they stress the need of developing regulations to manage the disadvantages and channelize them towards the creation of competitive advantage. These advantages, which will be recalled in the discussion of the Unified Systems Model, derive from the overlaps among these systems and are also called “*familiness*” in current literature (Habbershon & Williams, 1999).



**Figure 2: Seven roles of the integrated system approach (source: Sharma & Nordqvist, 2008)**

The *Integrated Systems Approach* or *Three-Circle Model* (Figure 2) has been drawn up demonstrating the stakeholder interests and defining the roles of the business (Sharma & Nordqvist, 2008). Here, the dual systems approach model has been enhanced by dividing the business circle into two circles, the manager/employee and the owner because these two have different goals and purposes as well. Sharma and Nordqvist (2008) refer to this approach by saying, “*It is a very useful tool for understanding the source of interpersonal conflicts, role dilemmas, priorities, and boundaries in family firms*”.

Yet, the *Three-Circle Model* has also some shortcomings discussed by Sharma and Nordqvist (2008). The main shortcomings discussed by them are that the integrated systems approach ignores other possible sub-systems that may influence family firms, it does not provide any insight into the performance outcomes of the interactions within family firms and the similarities are overemphasized, forgetting the differences that are appearing. Moreover, Habbershon et al. (2003) also point out some weaknesses of the model, saying that it mainly emphasizes the different purposes of the systems and outlines the boundaries instead of trying to analyze how these different systems could function as one entity and synergize.

The next chapter will discuss the *Unified Systems Approach* (Habbershon, Williams, & MacMillan, 2003), which is a modification of the *Integrated Systems Approach*, considering the shortcomings of the integrated systems approach.

### 2.1.2 Unified systems approach - including enterprising family concept

As described in the two and three-circle models, the family business consists of two distinct subsystems within one system, namely the family and the business. Yet, as Habbershon et al. (2003) criticize, the circle model does not emphasize how these different subsystems can simultaneously exist and how they can be managed most efficiently. Therefore, they developed the *Unified Systems Model* (Figure 3) of family firm performance, focused on how the two different parts interact with each other and lead to unique performance outcomes facilitating the creation of competitive advantage. The model helps family firms to manage the different systems and stay profitable on a long-term, ensuring the existence of the firm among several generations (Habbershon, Williams, & MacMillan, 2003).

Habbershon et al. (2003) describe the family business as a social system within the framework of this model. Moreover they define a system as “*a discipline for seeing wholes...interrelationships rather than things...patterns of change rather than static snapshots*”. Deriving from that, they claim that the different parts cannot be independent and the outcome of the interaction is unique and can only be reached through the interaction of the entire system. Within this model, the family business social system is called a “*metasystem*” (Habbershon, Williams, & MacMillan, 2003) and consists of three different components. The three components are the *controlling family unit* (history, traditions and life cycle of the family), the *business entity* (strategies and structures utilized to generate wealth) and, thirdly, the *individual family member* (interests, skills, and life stage of the participating family owners/managers). This division is similar to the *Integrated Systems Approach* discussed in the previous section.

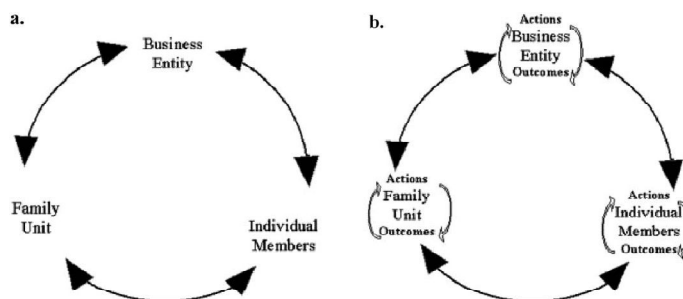


Figure 3: Unified systems approach (source: Habbershon et al., 2003)

In contradiction to the *Integrated Systems Approach*, Habbershon et al. (2003) emphasize how the actions taken in one of the subsystems influence the other two subsystems by becoming a source of feedback to them. Therefore, according to them, the different subsystems influence each other and hence all have a cause and effect in the other subsystems, meaning that the product of these interactions can only be reached through the interaction of the different systems. They call the product the *utility function of the system (f)*, which represents the factors that influence positively the transgenerational value within the family firm.

As Ackoff (1994) explains, each system needs at least one or more defining functions. Habbershon et al. (2003) claim that in terms of a family business, this means that the interaction of the three subsystems – family, business and individual – must have a positive effect on the performance. By this, they imply that there must be a function, which only exists because of the combination of the three subsystems, and is acting as a system instead of three separate systems. Moreover, they indicate that the final result would be a synergy of the three subsystems forming the defining function. If however the outcome is not positive, then, the *unsystemic aggregation of parts*, here family, business and individuals, in this case, would not be any existing defining

function (Habbershon, Williams, & MacMillan, 2003). Hence, instead of emphasizing the value creation, Habbershon et al. (2003) say that the focus should be on transgenerational value creation.

Families that create wealth among several generations are called enterprising families (Habbershon, Williams, & MacMillan, 2003). In this case, the defining function would be the transgenerational wealth creation, which would ensure that the family firm would survive on a long-term, thus, the focus of such enterprising families would be a long-term planning to keep the business alive and to protect it from failure (Habbershon, Williams, & MacMillan, 2003).

### The "familiness" of a firm

As described before by Habbershon et al. (2003), the family firm comprises three subsystems, the family, the business and the individual family members, whereas the interaction of these subsystems creates several idiosyncratic resources and capabilities. They refer to these resources and capabilities as the "family factor" (f factor). Moreover, the resources and capabilities are family-based inputs that derive on the metasytem performance model (Habbershon, Williams, & MacMillan, 2003). Hence, they can have either a positive (f+) or negative (f-) impact on the firm's performance (Habbershon, Williams, & MacMillan, 2003). In this sense, Habbershon et al. (2003) indicate that these resources and capabilities can either constrain the firm's competitiveness or, on the contrary, enable its creation of competitive advantage.

Examples for these kind of resources are trust (f+-), cost of capital (f+-), HR policies (f+-), leadership development (f+-), alliance strategies (f+-), or decision making (f+-) (Habbershon, Williams, & MacMillan, 2003). Referring to Habbershon et al. (2003), if these resources and capabilities are valued as either positive or negative depends on the interaction of the subsystems and its context, which together describe the "familiness" of a family firm. With regard to the Unified Systems Model Habbershon et al. (2003) define "familiness" with regard to firm performance as the result of the following proposition:

$$\text{Resources and capabilities}_i = f(\text{systemic influences of an enterprising families system})$$

Thus, "the familiness of the firm can be referred to as the summation of the resources<sub>i</sub> and capabilities<sub>i</sub> ( $\sum_i$ ) in a given firm" (Habbershon, Williams, & MacMillan, 2003). Where, the combination of family-influenced resources and capabilities can define the family firm's potential performance and outcomes (Habbershon, Williams, & MacMillan, 2003).

Hence:

$$\text{Familiness} = \sum(\text{resources}_i \text{ and } \text{capabilities}_i)$$

Therefore, Habbershon, Williams, & MacMillan (2003), propose the following relationship as a result of the "familiness" potential ( $\sum f+$ ) to create competitive advantage.

$$\text{Advantage}_i = f(\text{distinctive familiness})$$

To achieve a superior performance outcome will depend, therefore, on the influence of the distinctive familiness of an individual firm (Habbershon, Williams, & MacMillan, 2003). In addition, referring to Habbershon et al. (2003), this, has an impact on the rent-generating performance, and in fact, can turn into supernormal rents causing transgenerational wealth for the firm by defining distinctive familiness. Thus, they formulated the subsequent formula:

$$\text{Rent generating performance}_i = f(\text{advantage}_i)$$

Figure 4 introduces the unified systems performance model for enterprising families by Habbershon et al. (2003). The model demonstrates the advantages that derive from the idiosyncratic resources and capabilities interacting through the different subsystems (Habbershon, Williams, & MacMillan, 2003).

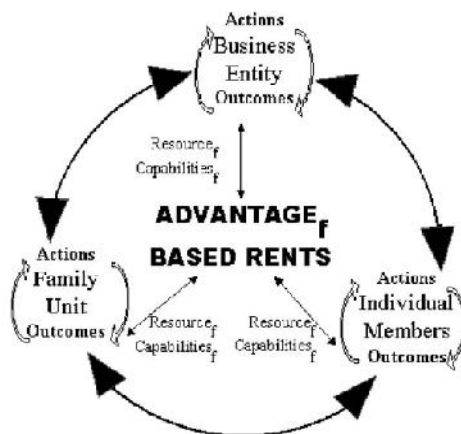


Figure 4: Unified systems model for firm performance (Source: Habbershon et al., 2003)

To sum up, these family-influenced resources and capabilities can be placed in the following continuum, as constraining or facilitating factors for the creation of competitive advantage (Habbershon, Williams, & MacMillan, 2003).



Figure 5: Familiness strategic potential

### 2.1.3 The resource-based view (RBV) of the firm

To be able to measure the performance of a firm, an appropriate and commonly applied approach in the family business literature is the resource-based view. The resource-based view links the resources and capabilities of the firm with the performance outcome of the firm (Habbershon, Williams, & MacMillan, 2003). It is assumed that each firm has idiosyncratic resources and capabilities that lead to a competitive advantage and which generate wealth among generations in a family firm (Habbershon, Williams, & MacMillan, 2003).

Any kind of assets a firm holds, in terms of organizational knowledge and processes controlled by the firm, are counted as resources and capabilities of a firm (Habbershon, Williams, & MacMillan, 2003). The literature differentiates between resources and capabilities; where resources are seen as factor stocks, and capabilities, on the other hand, ensure that these resources are utilized most effectively for the firm to create transgenerational wealth (Habbershon, Williams, & MacMillan, 2003). Habbershon et al. (2003) describe the interaction between resources and capabilities as chains, which are directly linked to the performance of the firm. For instance, they mention that social capital can have a positive impact on knowledge acquisition, which in turn could influence the firm capabilities positively, meaning that the different resources and capabilities are interlinked and influence each other.

The RBV therefore declares that resources and capabilities determine the performance outcome of a firm (Habbershon & Williams, 1999). Habbershon and Williams (1999) stress that this competitive advantage, caused by the idiosyncratic resources and capabilities, can be turned into a sustainable competitive advantage when the resources have distinct characteristics. As Barney (1991) defined, resources should be valuable, rare, difficult to imitate and non-substitutional to provide a sustainable competitive advantage for a firm. Moreover, referring to Barney (1991), the



firm needs to choose the right strategy to utilize these resources creating a sustainable competitive advantage, which will make it impossible for another firm to copy or imitate the resources.

Dollinger (1999) says simply having the resources does not provide the firm with a sustainable competitive advantage. He claims that it is necessary to deploy them most effectively and manage them in such a way that they are valuable to the firm. He declares that a competitive advantage arises when *"the entrepreneur is implementing a value-creating strategy not simultaneously being implemented by any current potential competitor"*, and defines value-creating as *above normal gain or growth*. Referring to Dollinger (1999) sustainable competitive advantage however requires an important addition, which is that *"current or potential firms are unable to duplicate the benefits of the strategy"*.

Sirmon and Hitt (2003) have conducted a study comparing the uniqueness of resources and attributes of family firms versus resources of non-family firms. The table below outlines the summary of the outcome of the study, providing an overview of the resources, its definition as well as the positive and negative attributes and compares them with non-family firms.

Focal Family Firms				
Resource	Definition	Positive	Negative	Nonfamily Firms
Human Capital	Acquired knowledge, skills, and capabilities of a person	Extraordinary commitment; warm, friendly, and intimate relationships; potential for deep firm-specific tacit knowledge	Difficult to attract and retain highly qualified managers; path dependencies	Not characterized by the positives, but have fewer limitations
Social Capital	Resources embedded in network, accessed through relationships	Components embedded in family; legitimacy with constituencies enhanced; development of human capital	Limited number of networks accessed; often excluded from elite networks (i.e., Fortune 500 CEOs)	Networks can be more diverse; maybe opportunistic in accessing and leveraging; sometimes used for managers' benefit—agency costs
Patient Financial Capital	Invested financial capital without threat of liquidation	Generational outlook; not accountable to strict short-term results; effective management of capital; allows pursuit of creative and innovative strategies	Nonfamily investors excluded; limited to availability of family's financial capital	Largely do not have the benefits or limitations
Survivability Capital	Pooled personal resources family members loan, contribute, and share with business	Helps sustain the business during poor economic times or redevelopment of the business; safety net	Not all family firms have it	Do not enjoy due to lack of commitment by employees and stakeholders
Governance Structure & Costs	Costs associated with control of firm; examples include incentives, monitoring, and controls	Family owned and operated firms' structures, trust, and family bonds reduce governance costs	Some family firms may not have an effective structure, trust, and strong family bonds, thereby producing greater governance costs	Professional management and capital diversification often increase governance costs

**Table 1 Comparing the Uniqueness of Resources and Attributes of Family Firms (Sirmon & Hitt, 2003)**

As the table above outlines, Sirmon and Hitt (2003) defined five different characteristics of a firm, the human capital, the social capital, the patient financial capital, the survivability capital and the governance structure and costs. Referring to Sirmon and Hitt (2003), these different

resources can cause competitive advantage for a firm and if managed effectively, they can also cause transgenerational wealth.

They describe the *human capital* as positive as well as negative. Since family firms tend to hire family members, no matter if they are well educated and have the required competence, the firm might lack professional managers and well-educated personnel. However, they also indicate the issue that many family members work for a long time for the company and have in-depth knowledge with regard to the firm. Moreover, family members are usually highly committed and motivated and therefore perform on a high level Sirmon and Hitt (2003).

Considering the *social capital* in family firms, Sirmon and Hitt (2003) argue that they can have a big impact on the performance of the firm and especially on the human capital. Family firms generally foster relationships with stakeholders easily and are able to build a strong network with loyal relationships, which in turn can lead to a positive development of the human capital through strong relationships (Sirmon & Hitt, 2003). This resource will be emphasized in the case study of this paper and its impact on the entrepreneurial orientation of a family firm. Later during this chapter, a section will deal with the aspect of social capital in family businesses in particular.

The patient *financial capital* can, referring to Sirmon and Hitt (2003), be an asset of a firm that leads to competitive advantage. Family firms usually plan on a long-term basis and manage the finances effectively following the objective to create transgenerational wealth (Sirmon & Hitt, 2003). However, family firms often do not facilitate external sources to raise capital because family firms are usually not willing to invest their money or take too many loans since they would have to face the risk to lose their money and control (Sirmon & Hitt, 2003). Therefore, most commonly in family firms, the core financial capital is obtained through internal financing (Sirmon & Hitt, 2003).

Sirmon and Hitt (2003) indicate the *survivability capital* as a very idiosyncratic characteristic of family firms. They proclaim that it actually expresses the uniqueness of the different resources and capabilities of the employees. Hence, the special combination of different skills and knowledge can lead to a competitive advantage for the family firm (Sirmon & Hitt, 2003). The *governance structure* and costs are, compared to non-family businesses, very modest (Sirmon & Hitt, 2003). Moreover, Sirmon and Hitt (2003) say that due to the structure in family firms, which are mostly based on trust and family bonds, the costs are diminished and can therefore lead to a competitive advantage for the family firm.

As Sirmon and Hitt (2003) say, "*managing resources is critical to gaining and maintaining competitive advantages*". They state that family firms need to evaluate their resources carefully to become aware of them and facilitate them creating wealth. As pointed out, referring to Sirmon and Hitt (2003) family firms have some advantages and simultaneously some limitations due to their specific and different context. Effective management of the existing resources can create value mutually for the business and the family of a family firm (Sirmon & Hitt, 2003).

## 2.2 Corporate entrepreneurship

Before dealing with the topic of corporate entrepreneurship it is important to define the term and clarify what is meant by it. Miller (1983) explains the entrepreneurial activity of the firm as a multidimensional concept where "*the entrepreneurial firm engages in product-market innovation, undertakes somewhat risky ventures, and is first to come up with "proactive" innovations, beating competitors to the punch*". This definition will be used during this report, demonstrating that corporate entrepreneurship represents the ability of a firm to act entrepreneurially.

The next section will deal with the concept of corporate entrepreneurship, describing the outcomes that have been researched and formulated in recent literature. Subsequently, the process of corporate entrepreneurship will be outlined, as well as the way how it functions in a

firm and finally the most recent findings will be presented to give an insight about corporate entrepreneurship within family businesses.

### 2.2.1 Corporate entrepreneurship

Nowadays, according to Kuratko (2007) corporate entrepreneurship (CE) is a strategy that is used in firms to establish sustainable competitive advantage causing growth. The literature differentiates between two kinds of CE, which are *corporate venturing* and *strategic entrepreneurship* (Kuratko, 2007). The subsequent Figure 6 outlines the subdivision of CE and what it specifically embraces.

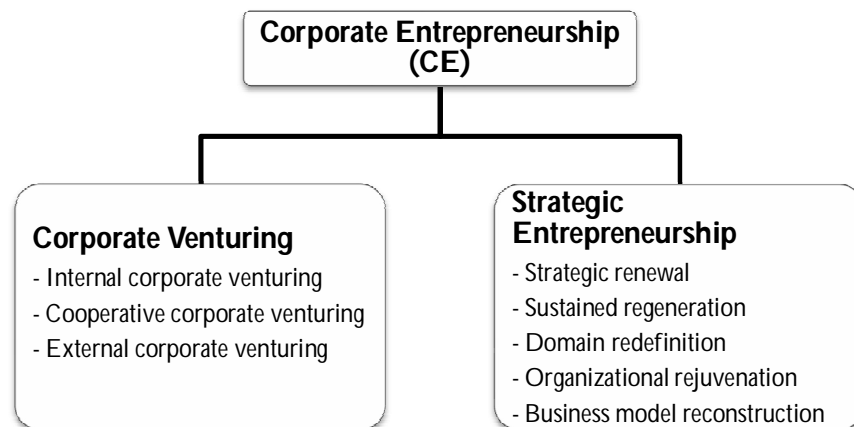


Figure 6: Defining corporate entrepreneurship (source: Kuratko, 2007)

Referring to Kuratko (2007), *corporate venturing approaches* deal with “adding new business to the corporation”. Specifically, this means that new businesses can be created internally, through cooperating with external partners, or externally, where new businesses are created through parties outside the firm (Kuratko, 2007). The other kind of CE, *strategic entrepreneurship*, is defined as “a broader array of entrepreneurial initiatives which do not necessarily involve new businesses being added to the firm” (Kuratko, 2007). This kind of CE rather relates to innovations that can occur anywhere and which are driven by opportunity and advantage-seeking behavior (Kuratko, 2007). Kuratko (2007) mentions some of the CE activities such as the changes from the firms’ past strategies, products, markets, organizational structures, processes, capabilities, or business models. The following paragraph will discuss the actual process of CE and will give insight how it affects behavior within a firm.

### 2.2.2 The corporate entrepreneurship process

Kuratko (2007) points out that corporate entrepreneurship is triggered through events such as hostility, dynamism and heterogeneity that can occur in the environment of the firm. Some of the examples he points out are changes in the management, acquisition or mergers, new technologies, changes in demand and also general economic changes.

The events described triggering CE require a strategic reaction of the firm to stay competitive. One of this reactions is the CE strategy, which means that the firm would implement entrepreneurial behaviour and innovation (Kuratko, 2007). Moreover, how successful and intensive an entrepreneurial strategy is implemented in a firm, depends greatly on the organizational antecedents (Kuratko, 2007). As Kuratko (2007) mentions, there are many issues, discussed in the current literature, that lead to and influence an environment in a firm that affect the firm’s entrepreneurial behaviour positively. Some of these issues he emphasizes are *management support*, *work description/autonomy*, *reward/reinforcement*, *time availability* and *organizational boundaries*, which eventually impact the behaviour within a firm.

To create an entrepreneurial firm, it is necessary to have the people who foster such an environment through their actions, meaning people who have to fulfil the different roles (Kuratko, 2007). In this sense, according to Kuratko (2007) senior-level managers are responsible for recognizing the opportunities and threats in the external environment and aligning them with the internal environment of the firm. Moreover, he states that middle-managers act as interpreters of entrepreneurial opportunities and finally, the first-level managers are expected to actually exploit these opportunities. This role division and interaction is significant for a company to stay competitive and successful.

Besides the role division, it is essential to foster entrepreneurial behavior within the firm (Kuratko, 2007). Kuratko (2007) says that entrepreneurial behavior is something that occurs everywhere in the organization and which can be realized through evaluating a firms' action. Furthermore, he indicates the three key dimensions innovativeness, risk-taking and proactiveness, as the core drives for influencing and creating entrepreneurial behavior.

Regarding entrepreneurial outcomes and consequences, Kuratko (2007) differentiates between two levels, the individual and the organizational one. He says that individuals need intrinsic as well as extrinsic rewards for acting entrepreneurially and for continuing this entrepreneurial behavior. The same, he mentions, on the organizational level where it is essential to measure the outcomes in terms of increased entrepreneurial behavior, increased sales, profit and/or market share. In this way, if the outcome is positive, the strategy can be retained, and if negative, the entrepreneurial strategy might require some modification, improving entrepreneurial behavior (Kuratko, 2007).

Kuratko (2007) concludes that missing entrepreneurial actions in firms nowadays can cause failure. He points out that corporate entrepreneurship is currently the best approach to create competitive advantage. Therefore, he recommends that firms need to realize the need to implement a corporate entrepreneurship strategy to be able to act entrepreneurial and improve the firms outcome and performance. Hence, the importance of corporate entrepreneurship for firms in environments that rapidly change today has increased and is one of the focal points in research regarding firms' competitive advantage and performance outcomes (Kuratko, 2007).

### **2.2.3 Corporate entrepreneurship in family businesses**

For analyzing the entrepreneurial orientation in a family firm, it is necessary to outline previous research with regard to corporate entrepreneurship and family businesses. Nordqvist and Melin (forthcoming) have conducted research to evaluate if family firms have, due to its specific characteristics and family culture, a positive impact on the entrepreneurial behavior and processes within a firm. As they state, during the 1980s and 1990s the research in family business has mainly been conducted on legacy, succession and survival of the family firm. Yet, lately more often the connection to entrepreneurship has been made and families started to be seen as a potential source of new business activities, strategic renewal and innovation (Habbershon & Pistrui, 2002). To actually find out the role a family plays in relation to entrepreneurship, referring to Nordqvist and Melin (forthcoming), it is necessary to research two different dimensions, which are the entrepreneurial family and the entrepreneurial family business. Nordqvist and Melin (forthcoming) refer to the entrepreneurial family *"as an institution, or social structure, that can both drive and constrain entrepreneurial activities"*. To the entrepreneurial family business however, they refer to as *"a type of organization, or organizational context, with certain characteristics that can facilitate, or constrain entrepreneurial activities, processes and outcomes"*.

Nordqvist and Melin (forthcoming) indicate that if a family and its business are entrepreneurial depends on their capability of detecting opportunities and exploiting these to create an advantage and contribute to the economy. According to them, the literature divides the research of corporate entrepreneurship and family business in two contradictory views. The first one is that

family businesses are flexible, highly entrepreneurial and dynamic, and the second one, is that they are risk averse, inflexible, conservative, and therefore not entrepreneurial (Nordqvist & Melin, forthcoming).

Moreover, the main research on family businesses has been emphasized on the business itself and not on the family as a unit, which means that the influences of families on the businesses have not yet been considered carefully enough (Nordqvist & Melin, forthcoming). Nordqvist and Melin (forthcoming) say that in order to understand the influence of a family on the business entirely, further research needs to be conducted. Moreover, there is still demand for further research on how entrepreneurial activities are influenced by families and its traditions, values, norms and attitudes (Nordqvist & Melin, forthcoming). Besides, within family businesses, conflicts exist that cannot be detected in non-family businesses (Nordqvist & Melin, forthcoming). Some of the conflicts that Nordqvist and Melin (forthcoming) emphasize are ownership matters among the family, rivalry and perceived unfairness. Contrary to that, they state that families can also be a strong entity pulling on one string to reach a shared objective, which again can be an advantage. By indicating these matters, Nordqvist and Melin (forthcoming) demonstrate that family businesses are very distinctive in nature and different in many diverse matters compared to non-family businesses. Consequently they derive that these idiosyncratic characteristics can have a significant positive and negative impact on entrepreneurial activities within a business.

While, referring to Nordqvist and Melin (forthcoming), the main core of entrepreneurship is about starting up a new business and entering new markets, another family business research-focus in the literature focus on venture creation. Miller and LeBreton-Miller (2005) say that family businesses are good at product innovation, since they have a long-term focus and are patient enough and very enduring in their strategy. Besides, Nordqvist and Melin (forthcoming) mention another issue, which is the matter of family members or even the firm's founder exiting the firm and taking the experience and resources he/she own to invest in new projects. This again can support entrepreneurial behavior and the firm (Nordqvist & Melin, forthcoming). According to Nordqvist and Melin (forthcoming), this can provide the firm with the chance to get new resources and capabilities internally and externally to create transgenerational value. They say that the issue of selling the business, exiting or becoming unprofitable is something that family businesses also have to face. With this regard, it is significant for these firms to understand how this drawback can be handled and managed (Nordqvist & Melin, forthcoming). Therefore, they need to know how to stay entrepreneurial among generations to survive (Nordqvist & Melin, forthcoming).

Latest research has been conducted to find out how entrepreneurial family businesses are and which resources and capabilities are influencing this entrepreneurial behavior, as well as how does they affect the business' performance outcome (Nordqvist & Melin, forthcoming). A framework called transgenerational entrepreneurship has been set up to analyze the entrepreneurial orientation of a family firm and the ability of these firms to act entrepreneurially across generations by using the specific resources and capabilities they possess. This framework will be discussed in detail in the next subchapter.

### **2.3 Transgenerational entrepreneurship**

Now that the concept of corporate entrepreneurship and its relationship with family firms has been defined, it is time to focus on the way these enterprises benefit from it (Miller, 1983). By maintaining these entrepreneurial activities across generations and developing new ones based on the specific resources and capabilities they own, family firms can be seen as entities where a lot of entrepreneurial activity takes place (Habbershon T. , 2006).

Several research efforts have been undertaken with the aim to analyze corporate entrepreneurship in the family firms' context (Habbershon T. , 2006; Nordqvist & Melin, forthcoming; Nordqvist, Zellweger, & Habbershon, 2009). Starting from the family business' role as an engine for entrepreneurship and followed by the need of determining whether the nature of this type of firms has a positive or negative connotation for the overall performance; Nordqvist et al. (2009) focus their attention on transgenerational entrepreneurship. Moreover, by following a longitudinal and multiple-respondent research approach, the cited study traces a logical common path between entrepreneurship theories and family business studies.

### 2.3.1 Definition

Before defining transgenerational entrepreneurship itself, it is important to establish the starting point of this theory. Habbershon and Pistrui (2002) first introduced the concept of transgenerational wealth, related to family-owned businesses, as *continuous stream of wealth that spans generations*. Moreover, the authors stated that it embodies an implicit assumption that the family ownership groups will involve in the development of entrepreneurial change capabilities in response to environmental modifications that require strategic adjustment to keep creating value and sustain a competitive advantage. The main contribution of the mentioned study is the definition of family firm as the *unit of analysis*, upon which, the transgenerational entrepreneurship research is later developed and discussed in this section.

Later on, transgenerational entrepreneurship was defined as the family's mindset and capabilities to continue their entrepreneurial legacy of social and economic wealth creation across many generations (Naldi, Nordqvist, Sjöberg, & Wiklund, 2007). Based on this initial approach of wealth creation across generations, Nordqvist et al. (2009) developed the concept even further and connected it towards the specific factors and conditions enabling this transfer process in such context. Moreover, they broaden the outcome of the established connections by these mindsets and capabilities by including not only economic and social aspects, but also the entrepreneurial performance. As a result, transgenerational entrepreneurship, as considered in the present study, was defined *as the processes through which a family uses and develops entrepreneurial mindsets and family influenced capabilities to create new streams of entrepreneurial, financial and social value across generations* (Nordqvist, Zellweger, & Habbershon, 2009).

### 2.3.2 Family-level of analysis

With the aim of studying the relationship between family business and entrepreneurship many scholars have proposed shifting the level of analysis to a family level (Habbershon & Pistrui, 2002; Nordqvist & Melin, forthcoming; Nordqvist, Zellweger, & Habbershon, 2009). Furthermore, Habbershon and Pistrui (2002) state that the family, *“viewed as a group of individuals from common lineage who are connected through time by a legal governance structure”*, can constitute the unit of analysis that better suits the *“transgenerational wealth creation perspective”*.

In addition to this, the Unified System perspective of the family firm's performance model proposes a new integrated view of the *family business system*. In this system, entrepreneurship theories, focused on the individual entrepreneurs, and family business research, focused on the firms, are integrated with a new domain represented as the *family unit* (Habbershon, Williams, & MacMillan, 2003). This model, which at the same time has its roots in the transgenerational wealth concept described above, shows more clearly the importance of carrying out research considering this new perspective. Additionally, Nordqvist and Melin (forthcoming) propose the family as a relevant unit of analysis when performing entrepreneurship research. What is more, Nordqvist et al. (2009), highlight this change of the level of analysis as recognition of the true magnitude of economic relevance of this type of firm's role in the economy.

### 2.3.3 Research framework

In order to clarify the guidelines for research in corporate entrepreneurship specifically in the family business context, the transgenerational entrepreneurship approach integrates the key components affecting this phenomenon. According to Nordqvist et al. (2009) five main elements can be identified as part of this frame of reference. First, they establish the focus on family firms as the unit of analysis. The second element included entails the entrepreneurial orientation of the family. The influence of this entrepreneurial mindset on the specific use and accumulation of resources and the contextual factors in which these elements interplay, constitute the third and fourth components respectively. Finally, the fifth element refers to the impact of the interplay between the mentioned components on the firm's performance and value creation (Nordqvist, Zellweger, & Habbershon, 2009). The next chart summarizes the mentioned elements and the existing interrelationships among them.

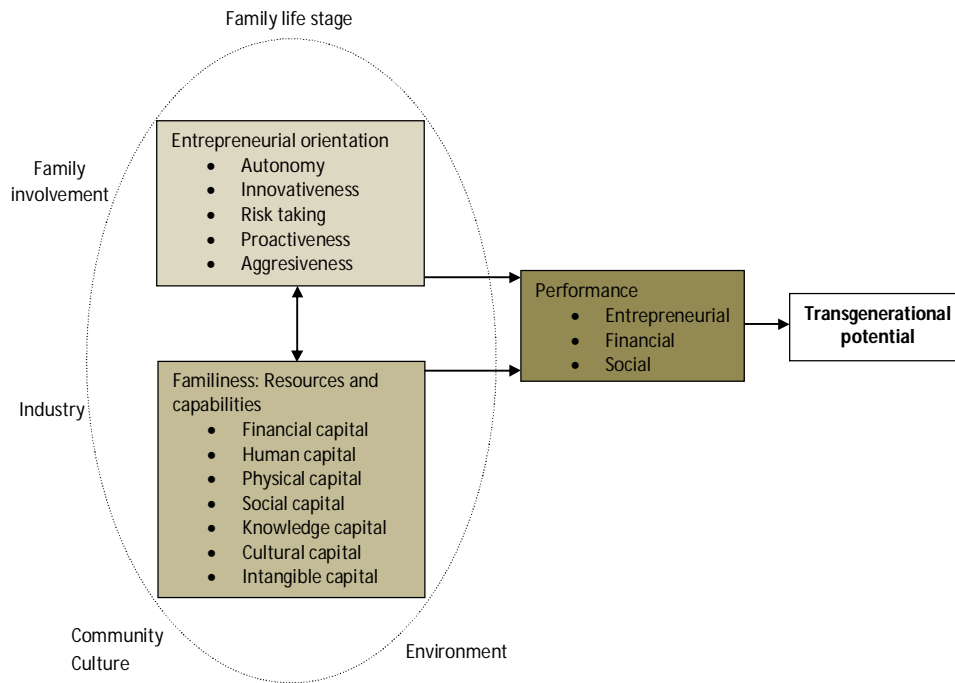


Figure 7: Framework for transgenerational entrepreneurship<sup>3</sup> (source: Nordqvist, Zellweger & Habbershon, 2009)

### 2.3.4 Entrepreneurial orientation

The transgenerational entrepreneurship framework includes the entrepreneurial mindset of family firms considering five main dimensions: autonomy, innovativeness, risk taking, proactiveness, and competitive aggressiveness. Miller (1983) explains the entrepreneurial activity of the firm as a multidimensional concept where *"the entrepreneurial firm engages in product-market innovation, undertakes somewhat risky ventures, and is first to come up with 'proactive' innovations, beating competitors to the punch"*. In his study, three of the five dimensions are mentioned – innovativeness, risk taking, and proactiveness – however, Lumpkin and Dess (1996) were the ones who clarified this concept in 1996 and included two new dimensions to the map – competitive aggressiveness and autonomy.

In the simplest way, entrepreneurial orientation (EO), as defined by Lumpkin and Dess (1996), refers to the processes, practices, and decision-making activities that lead to a new entry. Moreover, EO can be described as the *"attitudes, values, and beliefs of entrepreneurial organizations that tend to engage in strategy making characterized by an active stance in pursuing opportunities, taking risks and*

<sup>3</sup> Developed jointly between researchers from the European STEP Partner schools during the period 2005-2008.

*innovation*" (Zellweger, Mühlebach, & Sieger, 2008). In addition, the transgenerational entrepreneurship framework aggregates this concept as an indicator of the firm's entrepreneurial performance, and, in other words, understands EO as a "*measure for entrepreneurial mindsets and attitudes<sup>4</sup> from actual entrepreneurial performance, which is measured in terms of the sum of an organization's innovations, strategic renewal and venturing efforts*" (Nordqvist, Zellweger, & Habbershon, 2009).

This framework considers the same five dimensions as the ones determined by Lumpkin and Dess (1996) – proactiveness, risk taking, innovativeness, autonomy and competitive aggressiveness. Additionally, it is worth-mentioning that even though initially these dimensions were positively associated to the entrepreneurial behavior of the firm, their occurrence in different combinations and their dependence on environmental and organizational factors lead to the need of analyzing them individually in order to truly explain their actual effect on the firm's transgenerational potential (Zellweger, Mühlebach, & Sieger, 2008).

### Risk taking

Among other characteristics, Miller (1983) describes a non-entrepreneurial firm as one highly averse to risk. However, in the same study he mentions that risk-taking firms that are highly levered financially are not necessarily considered entrepreneurial. These contradictory statements are just an example of the highly complex discussion about the relationship between risk-taking and the firm's entrepreneurial orientation. Furthermore, Lumpkin and Dess (1996) argue that with the aim of obtaining higher returns, by seizing opportunities, entrepreneurially oriented firms usually "*present a risk-taking behavior, such as incurring heavy debt or making large resource commitments*".

Deriving from the formal definition of risk-taking, as "*the degree to which managers are willing to make large and risky resource commitments*" (Miller & Friesen, 1978) and the mentioned approaches; the firm's risk-taking propensity has been closely related to its entrepreneurial profile and therefore, to its influence on the organization's performance. Naldi, Nordqvist, Sjöberg, and Wiklund (2007) confirm risk taking as an important dimension influencing the entrepreneurial behavior in family firms. Nevertheless, their study suggests that the level of risk which these type of firms, particularly in terms of organizational and governance structure, are willing to undertake has a negative implication on their performance. Moreover, to deal with this negative impact of risk-taking and performance, they propose the use of more formal control and monitoring systems in order to manage and evaluate the risk related to new projects and the pursuit of opportunities. However, the negative impact that too much formalization could have on the entrepreneurial orientation of the firm is not ignored (Naldi, Nordqvist, Sjöberg, & Wiklund, 2007).

### Autonomy

Autonomy constitutes an important dimension of entrepreneurial orientation. One of the main drivers for new-entry activity is the independent spirit necessary to encourage new ventures (Lumpkin & Dess, 1996). Besides, Lumpkin and Dess (1996), define the firm's autonomy as the "*independent action of an individual or a team in bringing forth an idea or a vision and carrying it through to completion*". Likewise, Nordqvist et al. (2009), by introducing an element of liberty, point out autonomy as "*the freedom granting individuals inside an organization to be creative, to push for ideas and to change current ways of doing things*".

Some studies reveal the relevance of autonomy both at individual and organizational levels (Zellweger, Mühlebach, & Sieger; Nordqvist, Zellweger, & Habbershon, 2009). The former level shows autonomy as a more recent management practice introduced by younger family

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<sup>4</sup> Entrepreneurial mindsets are the attitudes, values and beliefs that orient a person or a group towards pursuing entrepreneurial activities (transg entr 09)



generations, whereas the latter one shows its predominance when practiced regarding stakeholders and across generations (Zellweger, Mühlebach, & Sieger, 2008). In line with this observation, Nordqvist et al. (2009) refer to these two elements as internal –“*autonomous behavior by individuals and teams within established firms*”– and external –“*autonomy from external constituents such as banks, financial markets, suppliers and customers*”.

#### Competitive aggressiveness

Competitive aggressiveness can be considered as a reactive behavior in response to threats. Moreover, “*it also embraces non-traditional ways of competing in an industry*” (Nordqvist, Zellweger, & Habbershon, 2009). Lumpkin and Dess (1996) define it as the “*firm’s propensity to directly and intensely challenge its competitors in order to achieve entry or improve positions, and thus, outperform industry rivals in the marketplace*”. This definition can be closely related to Miller’s characterization of EO when he as part of his definition adds the phrase: “*...beating competitors to the punch*” (Miller, 1983). Furthermore, it is important to clarify that competitive aggressiveness dimension was not considered in the first approach of defining EO. Thus, Lumpkin and Dess (1996) emphasize the difference between proactiveness, specifically referred to pursue new market opportunities, and competitive aggressiveness, which considers the response to the existent competitive environment.

#### Innovativeness

The innovativeness dimension of the entrepreneurial orientation measures the firm’s tendency to engage in and support new ideas, novelty experimentation, and creative processes that may result in new products, services, or technological processes (Lumpkin & Dess, 1996). This definition arises from Schumpeter’s (1942) identification of innovation as a key constituent for enabling the influence of entrepreneurial activity on wealth creation, by disrupting existent market structures with the introduction of ‘new combinations’. Moreover, Lumpkin and Dess (1996) introduce the technological innovation domain that was not being considered by previous studies, which had an exclusive product-market orientation regarding innovation.

Innovativeness, as argued by Lumpkin and Dess (1996), is what marks the point in time when an organization is willing to exchange existing technologies for new ways of doing things. Moreover, innovativeness is what comprises the means used by organizations to pursue opportunities, in which the overlap between product-market and technological innovation is what defines how they face opportunities and pursue them (Lumpkin & Dess, 1996). In terms of the different forms that innovation can adopt, Lumpkin and Dess (1996) propose “*a continuum from a simple willingness to either try a new product line or experiment... to a passionate commitment to master the latest in new products and technological advances*”. In line with this view, Nordqvist et al. (2009) refer to this innovativeness’ continuum regarding both the scope and pace of innovation.

In the family firm’s field, Zellweger, Mühlebach, and Sieger (2008) study the relationship between the EO and business continuity, arguing that family firms present lower levels of technological innovation, yet present higher levels of strategic renewal in terms of internal changes faced within the organization. This finding can be associated with Lumpkin and Dess’ (1996) emphasis on studies that focus not only on the product-market aspect of innovation, but also on the technological matter related to the use of new methods. Finally, it is important to point out the crucial role innovativeness plays in terms of influencing the firm’s entrepreneurial orientation and sustaining the firm’s viability in the competitive environment (Nordqvist, Zellweger, & Habbershon, 2009).

### Proactiveness

Proactiveness can be defined as *“acting in advance to deal with an expected difficulty”*<sup>5</sup>. Lumpkin and Dess (1996) emphasize the importance of this dimension when measuring the entrepreneurial orientation of a family firm, which is mainly related to the forward-looking perspective that accompanies any innovative or new venture activity. Moreover, they formally define proactiveness as the *“processes aimed at anticipating and acting on future needs by seeking new opportunities which may or may not be related to the present line of operations, introduction of new products and brands ahead of competition, strategically eliminating operations which are the mature or declining stages of life cycle”* (Lumpkin & Dess, 1996). While innovativeness, as stated before, reflects the firm’s likelihood to engage in and support new ideas, novelty experimentation, and creative processes (Lumpkin & Dess, 1996), proactiveness refers to how these initiatives are taken in terms of anticipating and pursuing opportunities that may arise (Lumpkin & Dess, 1996). However, the two dimensions are closely related and likely to fluctuate jointly (Lumpkin & Dess, 1996).

Additionally, the difference between proactiveness and competitive aggressiveness is grounded on the fact that the former one is more based on *meeting the demand*, whereas the latter one is more focused on *competing for it*. Moreover, this focus on meeting the demand is related, by Lumpkin and Dess (1996), to the process of new entry as a result of acting opportunistically. In this sense, in order to clarify this concept they, once again, refer to a continuum between the ability of organizations to *shape the environment* and act as leaders, opposed to the incapability of seizing opportunities, and thus having a *more passive role* in the marketplace. Finally, the transgenerational entrepreneurship framework refers to proactiveness as how *“a firm takes strategic initiatives by anticipating and pursuing new opportunities”* (Nordqvist, Zellweger, & Habbershon, 2009).

#### **2.3.5 Resource based view within the framework**

The third component considered in the transgenerational entrepreneurship framework refers to the resource based view (RBV) theory. As explained in the Unified Systems Model section of this document, *“the resource-based model assumes that each organization is a collection of idiosyncratic resources and capabilities that differentiate firm performance across time and is the source of their returns”* (Habbershon, Williams, & MacMillan, 2003). Moreover, the interaction among these resources and capabilities can be related directly and indirectly to the firm’s performance, the creation and sustainability of competitive advantage and the firm’s wealth creation (Habbershon, Williams, & MacMillan, 2003). The importance of this theory relies on the fact that its application allows to connect the specific resources and capabilities defining the *“familiness”* or *“family factor”* of the firm with the actual dimensions of EO (Habbershon, Williams, & MacMillan, 2003).

Nordqvist et al. (2009) argue that the interactions between the family, the firm and the individuals both in the family and/or the firm create resources that either promote or inhibit EO. Several examples are given in how these interactions take place. The leadership style, the organizational and governance structure, the organizational culture and the social capital, are just some of the characteristics influencing each of the dimensions of a family firm’s EO. Moreover, they consider entrepreneurial postures and resources as interrelated and as important drivers of a firm’s performance and value creation potential, with are both key elements to guarantee transgenerational success.

#### **2.3.6 Contextual factors**

As mentioned previously, the EO dimension’s occurrence can be observed in different degrees and combinations according to the environment and organizational factors influencing them. In

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<sup>5</sup> Proactiveness. (n.d.). *The American Heritage® Dictionary of the English Language, Fourth Edition*. Retrieved April 05, 2009, from Dictionary.com website: <http://dictionary.reference.com/browse/proactiveness>

addition, Habbershon et al. (2003) condition the “*familiness*” characterizing family business’ pool of resources and capabilities to “*the specific context of the systemic influences of the family business system*”. Thus, the transgenerational entrepreneurship approach, with the aim of capturing the variance in the context to the model, establishes a series of contextual factors both identified previously by theories such as the EO and RBV, and factors observed in the first phases of qualitative case research (Nordqvist, Zellweger, & Habbershon, 2009).

The contextual factors contemplated in the model are family stage, family involvement, industry, community and culture, and environment. While, the family stage is measured in terms of “*number of generations the family has been in control of the specific firm*”, the family involvement refers to the actual participation in terms of equity, management and governance board (Nordqvist, Zellweger, & Habbershon, 2009). The main objective of including these elements in the framework is to find out the impact on the EO dimensions and, simultaneously, include the possibility to extend the analysis across time.

### 2.3.7 Performance

In the context of family-influenced firms, Habbershon et al. (2003) define performance as the result of the interaction among the specific resources and capabilities the family business possesses. Moreover, the combination of these factors leads to the development of a competitive advantage, which results in the possibility of wealth creation. The transgenerational entrepreneurship framework, considering the unified-system influenced performance proposed by Habbershon et al. (2003) and the entrepreneurial orientation dimensions identified by Lumpkin and Dess (1996), distinguishes the fact that when it comes to family firms it is possible to identify different types of performance (Cruz Serrano, Habbershon, Nordqvist, Salvato, & Zellweger, 2006).

The Step Project framework suggests the differentiation of three types of performance outcomes: entrepreneurial, financial and social (Nordqvist, Zellweger, & Habbershon, 2009). Moreover, it proposes that the family firm’s performance is a multidimensional construct where the three different dimensions are interrelated. This relationship can be represented through both substitutional and synergistic effects as well as in a temporal dimension (Nordqvist, Zellweger, & Habbershon, 2009).

#### Entrepreneurial performance

Corporate entrepreneurship as defined by Zahra (1995) refers to “... *the sum of an organizations innovation, renewal, and venturing efforts*”. This definition’s relationship with performance is clarified with the detailed description of each of its components. While *innovation involves creating and commercializing products and technologies*, providing the required resources and infrastructure for that purpose, venturing requires business creation either by expanding the existing or establishing new ones (Zahra, 1995). Finally, *renewal* refers to changes within the business’s operations on its scope or competitive strategy (Zahra, 1995).

Considering the three factors as closely related to the previously defined entrepreneurial orientation of the firm, the difference between EO and entrepreneurial performance lies on the fact that the latter one reflects the actual results of how the EO’s dimensions are used to create value. In that sense, the transgenerational entrepreneurship framework sees entrepreneurial performance as the result of the firm’s efforts not only to create new things but also to respond to environmental and organizational changes by maintaining their renewal capacity and hence, their competitiveness (Nordqvist, Zellweger, & Habbershon, 2009).

### Financial performance

Within this framework, financial performance is considered as the result of entrepreneurial performance (Nordqvist, Zellweger, & Habbershon, 2009). Moreover, instead of considering a positive financial performance as the main objective for family firms, it is seen as the result of the adequate combination of entrepreneurial activities and the right use of the firm's resources and capabilities. In other words, the entrepreneurial activities are not seen as an independent issue, but become the actual drivers of financial success (Nordqvist, Zellweger, & Habbershon, 2009).

### Social performance

Social performance can be described as the non-financial performance outcomes observed in family firm's behavior (Nordqvist, Zellweger, & Habbershon, 2009). Moreover, it can be better understood by applying the stakeholder framework, which helps to explain the importance of social performance as the result of the multiple goals observed in the unified-systems model (Nordqvist, Zellweger, & Habbershon, 2009). Nordqvist et al. (2009) mention three main reasons for this observation: 1) the family as an additional stakeholder group, 2) the existing overlapping goals and functions between the family, the business and the individual, and 3) the corporate social responsibility and strong social relationships observed in these particular firms. In sum, the social performance reflects the additional interests that can be identified in a family business besides the generation of profits. It is particularly important when transferring this value through generations and it can be used to analyze and explain the decision-making process regarding the entrepreneurial dimensions and 'familiness' of the firm from a non-financial perspective (Nordqvist & Melin, forthcoming).

## **2.4 Social capital and family businesses**

As Salvato and Melin (2008) state, there has been plenty of research done within the field of family businesses and the antecedents of competitive advantage, as well as in how family businesses create transgenerational value regarding financial outcomes and strategic sustainability. However, according to them, there is a missing link in the literature, considering the social interactions within and outside of a family firm, and how these interactions can have a positive effect on transgenerational value (Salvato & Melin, 2008).

Social capital is defined as *"the social network of relationships possessed by an individual or social unit, and the sum of actual and potential resources embedded within, available through, and derived from such network"* (Salvato & Melin, 2008). Salvato and Melin (2008) distinguish two dimensions of social capital, the structural and the relational, whereas the structural social capital *"refers to the pattern of connections between actors, comprising social interaction ties, network configuration, and appropriable organization"* and the relational social capital *"comprises a set of resources attainable through the structural dimension"*. Moreover, they stress the fact that the structural dimension provides family firms with access to resources that are necessary for innovations, and the relational dimension can facilitate the access to resources and resource combinations, whereas both can cause competitive advantage and create value across generations.

With regard to these two dimensions, Salvato and Melin (2008), under the premise that firms can have outside and inside relationships constituting the social capital, also differentiate between external or bridging social capital, and internal or bonding social capital. Furthermore, they developed a framework, which describes the development of social capital in a family firm and how it can cause transgenerational value depending on the life cycle of the family and the firm. Figure 8 illustrates the mentioned framework.

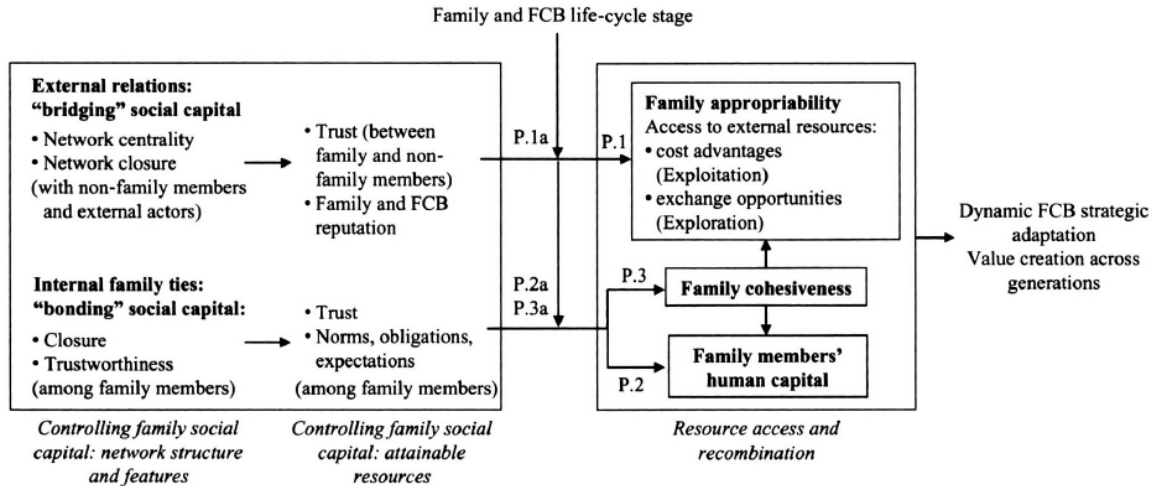


Figure 8: From social capital to strategic adaptation and value creation (source: Salvato & Melin, 2008)

According to Salvato and Melin (2008) and their developed framework, one of the reasons why family businesses have advantages compared to non-family businesses, is because the family members' social links and their family network's relationships can be more easily sustained across generations. In addition, they point out the centrality of family members in family firms, meaning central individuals who have strong relationships within their social and professional networks, influences the reputation of the family and the firm positively. Moreover, network closure, which is the extent to which all actors of a network have relationships with one another, can support relationships between family members and non-family members (Salvato & Melin, 2008).

Since the family firms' environments nowadays are very dynamic and rapidly changing, it is important to be able to adapt to the changes to stay competitive, which, as proven by Salvato and Melin (2008), can be facilitated by the social capital of a family firm. Yet, they also discuss those difficulties to recombine relationships internally and externally due to the different needs in different stages of the life cycle of the family and the firm. Therefore, they claim that the focus of family firms with regard to social capital needs to be on how to reshape and renew social interactions and meanings to create competitive advantage and value across generations (Salvato & Melin, 2008).

Another study conducted by Pearson, Carr and Shaw (2008) discusses the issue of social capital with regard to the behavioral and social resources constituting the familiness' factor of a family firm. In line with Salvato and Melin (2008), they also emphasize the importance of social relationships within and outside the organization to create family firm wealth. According to them "social capital reflects the character of social relationships within the organization, realized through members' levels of collective goals orientation and shared trust". Moreover, social capital is considered to have a big impact on the flow of information the strategic actions of groups within and outside the firm (Pearson, Carr, & Shaw, 2008).

"Social capital is by definition socially complex, related to norms, values cooperation, vision, purpose, and trust that exist in the family firm, it is tacit in nature and extremely difficult to imitate for competitors" (Pearson, Carr, & Shaw, 2008), which indicates the relevance of social capital for value creation. The two coexisting systems, the family and the firm, create strong relationships and a big network, which cannot be separated from one another (Pearson, Carr, & Shaw, 2008).

Instead of considering only two dimensions of social capital like Salvato and Melin (2008) did, Pearson, Carr, and Shaw (2008) consider three of them, which are the structural, cognitive and relational dimensions. Hence, they added the cognitive dimension to the other two dimensions, which refers to "resources providing shared representations, interpretations and systems of meaning among

*parties*". Figure 9 illustrates the social capital model of "familiness", which demonstrates how social development conditions in a family firm can develop specific social capital resources, which in turn create family firm capabilities, leading to a competitive advantage and finally causing family firm wealth and value creation.

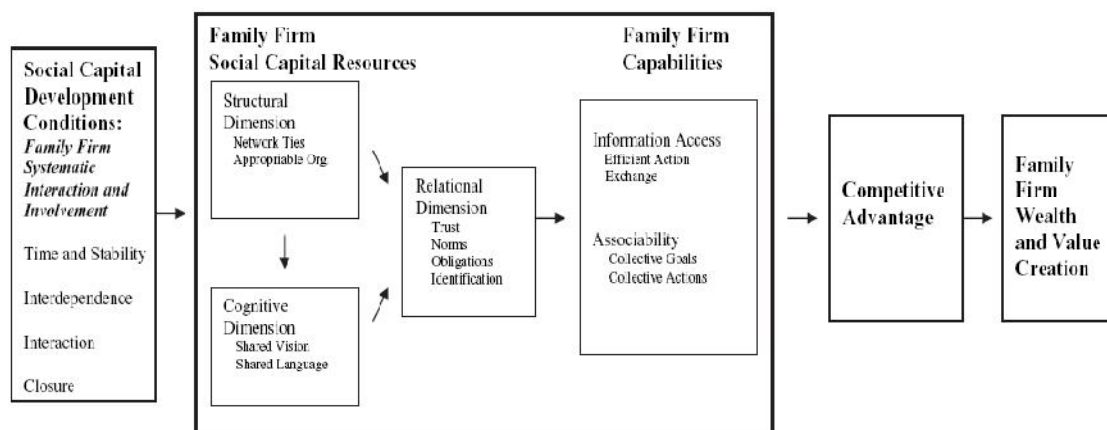


Figure 9: A social capital model of familiness: family firm interaction/involvement as unique developmental conditions for social capital (source: Pearson, Carr, & Shaw, 2008)

There are certain conditions in a family firm that, according to Pearson, Carr and Shaw, cause familiness through developing distinctive and extraordinary social capital, which are time/stability, interdependence, interaction and closure. Referring to them, *time and stability* are significant conditions for creating constant relationships, through investing in these over time while establishing a durable vision, norms and patterns of behavior. In family firms, objectives are focusing on long-term goals rather than short-term securing the survival of the company over generations simultaneously ensuring the survival of the family (Pearson, Carr, & Shaw, 2008). Moreover, Pearson, Carr, and Shaw (2008) point out that the ownership in family firms is exceptionally stable compared to non-family firms, since the CEO usually stays for longer periods, also indicating that change is implemented slower than in non-family firms emphasizing the focus on continuity. Furthermore, Nahapiet and Ghoshal (1998) discusses the importance of durable relationships for refining mutual obligations in the firm. The second condition *interdependence* as argued by Nahapiet and Ghoshal (1998) creates social capital through the dependence of members of the firm among each other. Pearson, Carr, and Shaw (2008) point out that interdependence derives from joint and shared interests and goals, which referring to them is found more frequently among family firms due to the family structure that also affects the business structure.

*Interaction* is the third condition supporting the development of social capital in firms. Without interaction, social capital will most likely not develop and the higher the interaction, the better will the quality of the social capital also be, as Pearson, Carr and Shaw (2008) reveal. Moreover, family firms are, according to them, interacting more intensive than non-family firms, partly because they keep interacting also after working hours when they are not at the company anymore. *Closure*, the last of the four conditions, deals with creating boundaries and improving the internal focus of a firm (Pearson, Carr, & Shaw, 2008). Firms need to build a strong identity that enhances the closure, and that differentiates members of the firms with nonmembers (Nahapiet & Ghoshal, 1998), also facilitating and enhancing information sharing and decision making in firms (Pearson, Carr, & Shaw, 2008). Pearson, Carr and Shaw (2008) indicate that certain activities, like involving the next generation in the business as soon as possible, ensuring that the founder and also older generations stay engaged in the firm and keeping the firm in the family are issues that are characteristics of family firms, enhancing closure within the firm which in turn facilitates the building of social capital.

The described four conditions, which can be found in a higher degree in family firms, generate social capital, which as identified by Pearson, Carr and Shaw (2008) can be divided in the three previously mentioned dimensions, structural, relational, and cognitive. Nahapiet and Ghoshal (1998) emphasize three different aspects when discussing the *structural dimension*, the network ties, the network configuration, and the appropriate organization. The network ties are important since relationships in a network can provide access to resources saving time and costs to acquire them, whereas the network configuration is concerned with the information exchange of a firm influenced by the degree density, connectivity and hierarchy (Nahapiet & Ghoshal, 1998). Having a wide network rich in information therefore eases the accessibility of information. The final aspect, the appropriate organization, as described by Nahapiet and Ghoshal (1998), emphasizes the transfer of the relationships, for example the transfer of trust and norms from the family to the business.

The *cognitive* dimension of social capital looks at the shared language, codes and narratives of a firm, whereas regarding to Nahapiet and Ghoshal (1998) a shared language among people facilitates the access to people and information. Moreover, she indicates that shared codes will influence the perception of people; hence, members of one firm or network will interpret the environment and other issues following the same approach. In addition, the shared narratives can also enhance the communication through using stories and metaphors and ease the creation and transfer of different forms of knowledge among people (Nahapiet & Ghoshal, 1998).

Finally, the *relational* dimension of social capital constitutes of trust, norms, obligations and identification, which facilitates the generation of knowledge through exchange and combination (Nahapiet & Ghoshal, 1998). Trust is essential for deep relationships since it creates openness among people, relying on others and believing that the other person will make the most appropriate decision, whereas norms indicate the consent of people concerning different matters (Nahapiet & Ghoshal, 1998). Obligations are described by Nahapiet and Ghoshal (1998) to act according to particular expectations facilitating the exchange of knowledge and being able to rely on each other. The last issue of the relational dimension discussed by Nahapiet and Ghoshal (1998) is identification that improves team building and working together to achieve objectives as one time and it also enhances frequent interaction among the firm.

### 3 Implications for Research

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*The following chapter will present a brief summary of how the previously discussed literature relates to the particular case study of this thesis. First, the implications regarding corporate entrepreneurship, family businesses, and transgenerational entrepreneurship will be addressed and then, an insight on the interrelationships with social capital will be presented.*

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#### Corporate entrepreneurship and its implications

Corporate entrepreneurship has lately been recognized as the main and most applied strategy in firms to create growth. It is about strategic renewal, recognizing opportunities and recombining and renewing resources to create a competitive advantage. Being aware of the different elements that cause corporate entrepreneurship and foster entrepreneurial behavior is essential and has been the focus of several research studies. Moreover, knowing the concept of corporate entrepreneurship, will help to analyze the findings of this case study and to relate them to the concept of corporate entrepreneurship.

Corporate entrepreneurship, if not applied properly or not applied at all can even cause failure. Consequently, it is necessary to be aware of the events that can trigger entrepreneurial behavior, and also how this can be implemented and exploited in a firm. It is derived from the concept of corporate entrepreneurship that the context of a firm, its resources and capabilities constitute the way a company is run and how it takes actions. Therefore, regarding this case study, the analysis of corporate entrepreneurship presence in the firm can be done by evaluating its resources and capabilities with a focus on social capital, especially because of the roles of different people working at the firm and influencing its strategy.

#### Family Businesses

Regarding family business research, the Integrated and Unified Systems Approach clarifies the unique context of a family firm and provides a better understanding towards the diverse issues that impact the family firm and its performance. Being aware of the different subsystems, the family, and the business, as well of the different roles that have to be taken by people within the firm, is essential because it shows the conflicts that can impact the firm's behavior and actions. By analyzing the resources, it has been evaluated, that family firms embrace idiosyncratic resources and capabilities that can be the source of a competitive advantage, which is called in the literature the "*familiness*" or *f factor* of a family firm. This "*familiness*" helps describing the elements that can influence the creation of competitive advantage and distinguishes them from non-family businesses. These theories will be crucial further on when analyzing the empirical data and drawing conclusions concerning the dependencies of the different resources and dimensions that create entrepreneurial orientation in the firm.

The conducted interviews of this case study will indicate and help to identify, which resources and capabilities of the family, the business and also the individual influence the creation of competitive advantage of the family firm. Moreover, the identification of positive and negative resources and capabilities that affect the strategy and governance of the firm can be done by placing these elements in the continuum related to the concept of "*familiness*".

#### Transgenerational Entrepreneurship

As described in the literature review, recently, research studies have been conducted linking corporate entrepreneurship to family businesses and how this can create a sustainable competitive advantage simultaneously causing transgenerational wealth. The transgenerational entrepreneurship framework is the latest model that has been developed in this field. Moreover, it helps to understand the context of a family business, how the specific resources and capabilities



support entrepreneurial orientation and how this, again, influences the firm's performance causing transgenerational wealth. Yet, this framework requires more in-depth studies to proof the different relationships and to acquire deeper knowledge on how exactly the resources and capabilities can foster entrepreneurial orientation in family firms. The outcome could also facilitate the strategic renewal in family firms and help them to build long-term advantages ensuring the creation of transgenerational wealth.

The framework mainly outlines the general links and issues that impact the entrepreneurial orientation but the link between specific resources and dimensions is hardly made yet. Therefore, this study will contribute to this understanding and will link social capital to innovativeness and proactiveness.

#### *The interrelation of social capital and innovativeness and proactiveness*

Consequently, besides the concept of corporate entrepreneurship and family businesses, and the link between those two, it is essential to provide an understanding of how social capital plays a role in family firms and it contributes to the entrepreneurial orientation of a firm. The frameworks that have been developed in the literature describing the three dimensions – cognitive, relational and structural – of social capital, helped to structure the social interactions of the case and relate them to the context of family firms and its entrepreneurial orientation. The frameworks of social capital describe how the specific context of a family business regarding history, tradition and the internal relationships of the family can lead to different kinds of networks. Moreover, the level of closeness of relationships, the interaction and the trust, help building internal and external relationships. Lastly, these different relationships can create a competitive advantage in terms of committed and loyal employees, receiving special treatments from suppliers, or even acquiring resources in terms of knowledge and skills from external parties.

The outcome of the interviews will be categorized according to the transgenerational entrepreneurship and social capital framework, dividing it into the different dimensions. Yet, first the context of the family firm will be analyzed. The outline of the firm's context of the transgenerational entrepreneurship framework will help to categorize the findings. Moreover, the findings will be structured in terms of the social capital framework, subsequently showing the circumstances that influence the social capital of the firm. By analyzing the link between social capital, firm performance outcomes and value creation, the need of understanding becomes apparent and crucial to create competitive advantage by recombining the resources and capabilities. It is evident after discussing the conditions in the literature review, which lead to the development of the three dimensions of social capital that family firms seem to have a unique context facilitating the development of a high degree of social capital. Since there is not much empirical data in this research field, this study will contribute to close the gap between social capital and its impact on wealth creation. Furthermore, it will provide a better understanding for family firms on how to manage their social capital and how to exploit the specific conditions of the context in which they operate. The described framework from Pearson, Carr, and Shaw (2008) will be used to analyze the qualitative data and will either be approved or modified depending on the findings of the case study.

These circumstances concerning social capital development are the previously described conditions *time/stability*, *interdependence*, *interaction* and *closure*. Since, these however, as described by Nahapiet and Ghoshal (1998), are partly overlapping constant relationships cannot be built without interaction and/or long-term relationships also greatly depend on interdependency among the members of the firm, the four conditions have no clear borders in terms of the content. Hence, the analysis of the empirical data will be subject to the individual judgments of the two researchers and will also accordingly to the overlap describe the several issues of the

conditions that belong to more than one specific condition. Yet, this might lead to repetitions, which however are necessary to explain the links between the different conditions. All of the four conditions are fundamentally for the development of the social capital dimensions; however they are also complex due to the overlapping and intertwined content areas as described before. Finally, the outcome of the social capital analysis will be linked to proactiveness and innovativeness of the firm, showing incidents that can be considered innovative and proactive. Finally, this will be associated with the entrepreneurial, financial and social performance of the firm, if it has any impacts and also if it causes transgenerational wealth.

To conclude, by applying the different frameworks, it facilitates structuring the findings of the interviews and describing the interdependencies of the diverse issues that lead to a competitive advantage of the firm. The findings may either confirm, alter or even disapprove the frameworks, which will have a significant impact on future research and firms' behavior regarding strategy making and governing family firms.

## 4 Method

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*The present study will follow the methodology of in-depth case study as the chosen research strategy. The following chapter will discuss the reasons why this method was adopted, give some introductory information about the selected case, and finally, the research strategy applied will be presented.*

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### 4.1 Choice of method

When deciding on the method to conduct the research and collect the empirical data it is essential to refer to the problem and purpose of this research (Saunders, Lewis, & Thornhill, 2007). The general emphasis of the study is on researching the relationship between resources and capabilities, the entrepreneurial orientation and performance of a family business. How do these influence each other, what is most important for a family firm to stay entrepreneurial, and what in specific guarantees the success of a family firm in terms of performance. To answer these questions an exploratory research approach is needed. Exploratory research deals with a problem that requires clarification to understand the underlying patterns (Saunders, Lewis, & Thornhill, 2007).

In this case, the problem has been narrowed down to two dimensions of the entrepreneurial orientation and one resource. Consequently, the focus of the research is limited to the interdependencies between proactiveness, innovativeness and social capital. Besides, the study aims to discover how this interrelation affects the performance and transgenerational value creation of the family firm. Therefore, it is needed to detect the relationships, values and purposes of different people within the family business and how these contribute to the entrepreneurial orientation within the family business. Since numerical data would not provide a profound answer to the questions of how, what and why phenomena, in terms of entrepreneurial orientation and performance exist in a family firm, the research method that best suits this needs is of qualitative nature (Saunders, Lewis, & Thornhill, 2007). To collect the data, a case study approach was chosen including in-depth interviews. This issue will be discussed in the paragraphs Case Study Approach and Data Gathering.

### 4.2 Qualitative research

Qualitative research aims to understand and interpret phenomena in terms of creating new meanings by studying things in their natural context (Denzin & Lincoln, 2005). Robert E. Stake (1995) asserts that the main differences between quantitative and qualitative studies arise from the specific research's *purpose*, the *role* of the researcher and the level of *knowledge construction*. This study's main aim is to contribute to understanding in the subject of family-influenced firms and transgenerational entrepreneurship. The *purpose* stated above points out the desire of promoting understanding and not just explaining the issue<sup>6</sup>. Stake (1995) argues that qualitative research is more adequate when interested in understanding the "uniqueness" of a case and context. Moreover, the transgenerational entrepreneurship framework, represented as an aggregate of complex relationships among 'familiness', entrepreneurial orientation, and family firm's performance in a given context, requires a qualitative approach in order to understand the complex relationships that may exist (Stake, 1995).

Stake (1995) draws the attention to the importance of the researcher's interpretation of his/her perceptions of key episodes or testimonies. "*All research is search for patterns, for consistencies*" (Stake, 1995). In order to trace the relationships among the transgenerational entrepreneurship context in this particular case, interpretation is a key element that needs to be carefully considered. This brings up the significance of the researcher's *role* as the filter by which the information is both

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<sup>6</sup> "*Quantitative researchers have pressed for explanation and control... they try to nullify context in order to find the most general and pervasive explanatory relationships*" (Stake, 1995).

gathered and later, analyzed. As a result, the use of interpretation, as a method to achieve this purpose, is crucial to facilitate the investigator's seeking of patterns among unanticipated and expected relationships (Stake, 1995). This active role, played by the researcher, uses interpretation as a method and is central when drawing relationships, "*finding new connections*" and directing research according to emerging issues and developing events (Stake, 1995).

This interpretative role is directly related to the creation of knowledge. Through the qualitative research approach, "*knowledge is constructed rather than discovered*" (Stake, 1995). This research aims to construct understanding on the *Transgenerational Entrepreneurship* phenomenon; and to achieve this purpose, the research strategy includes actions like *validation*, *triangulation*, and *member checking* to ensure that knowledge is constructed based on the "right" interpretation of the case.

### 4.3 Case study approach

As discussed above, the type of research that suits better the needs and purpose of this study is qualitative research. The case study approach is a qualitative research method that allows studying complex issues where multiple elements interact. Yin (1989:23) defines a case study "*as an empirical enquiry that investigates a contemporary phenomenon within its real-life context: when the boundaries between the phenomenon and context are not clearly evident; and in which multiple sources of evidence are used*". Moreover, he argues that, when dealing with 'how' and 'why' research questions, case study is one of the preferred strategies used to create the operational links identified over time (Yin, 1989).

Considering the small amount of research accomplished in the transgenerational entrepreneurship field and the missing link between family firm and entrepreneurship theory, an in-depth analysis of the phenomena could not only enhance the understanding but also serve as a basis to further theory building. This goes in line with Eisenhardt's (1989) observation about theory building based on case studies, which according to him are an empirically based research strategy that should be used to create theoretical constructs, propositions, or mid-range theory. In the context of family firms and transgenerational entrepreneurship, the use of an *instrumental case*<sup>7</sup> study, allows to make sense of the observations and understand both the phenomena in general and the specific relationships that may arise between them (Stake, 1995). These relationships will result from the interaction between "*familiness*", entrepreneurial orientation and performance in this family firm's context.

#### 4.3.1 Analysis and interpretation

One of the main elements of the case study method refers to the analysis and interpretation of the observed phenomena (Stake, 1995). In this method, subjectivity is seen not as a negative aspect but as an "*essential element for understanding*" (Stake, 1995). Consequently, emphasizing the importance of analysis and interpretation of the information is crucial. Stake (1995) refers to the act of giving meaning to observations as analysis. Moreover, he summarizes the analysis and interpretation as a making sense process where the researcher breaks the phenomena in smaller parts and then aggregates them in a meaningful way (Stake, 1995). This compilation process, says Stake (1995), along with direct interpretation is a way of "*reaching new meanings about the case*".

A vital part of knowledge construction is finding *correspondence* and *patterns* (Stake, 1995). The researcher must maintain a level of awareness that allows him/her to establish the right connections arising from different sources of information: interviews, observation or additional documentation (Stake, 1995). In this case, the base for this pattern construction is the transgenerational framework discussed in the literature review of the present study. Such framework constitutes the outline of the relationships this study is aiming to be traced. However, this study also aims to identify new connections in this particular case in order to understand the

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<sup>7</sup> Stake (1995:3,77) defines instrumental case study is used as a mean to create general understanding of a particular phenomena or the relationships within it.

transmission of the family's entrepreneurial mindsets and family-influence capabilities across generations. These basic patterns are also presented as research questions and will be further developed in the analysis of the case well.

This study does not seek for *generalization* as an objective. Moreover, on the search of better understanding, generalization is used as "*an active process of reflection*" (Denzin & Lincoln, 2005) in which the reader will have the opportunity to judge if the presented knowledge makes sense in this context. Yin (1989) refers to this process as analytic generalization of findings to existing theory and not to an entire population. Moreover, in a subject that remains in an initial development stage, such as transgenerational entrepreneurship, the comparison of empirical findings with existing theory can contribute to the knowledge creation and unveil new research needs. Besides, Stake (1995) distinguishes two levels of generalization. The first one, *petite generalization*, refers to generalization within a specific case which cannot be extended to other situations. The second one, *grand generalization*, aims to increase the reader's confidence on the researcher's generalization. Even if both focus of generalization are drawn during the data analysis, it is important to bear in mind that this study seeks to inquire the particularities of the case to enrich the theory, and thus, will focus on leading the reader to a *naturalistic generalization* through the real understanding of the studied phenomenon.

#### 4.3.2 Triangulation

"*Triangulation is the simultaneous display of multiple, refracted realities*" (Denzin & Lincoln, 2005). In order to guarantee the logical interpretation and minimize misinterpretations of the studied case and the information obtained from the interviews, it is crucial to have certain validity protocols that can result in additional observations for further revising the original interpretation (Stake, 1995). In this particular case, the triangulation protocols applied is known as *investigator triangulation* (Stake, 1995). As described later in the research strategy section, the interviews are carried out by one researcher, however once translated to English, the interpretation drawn from that information will be carried out by both researchers conforming the research team, first separately and then in form of discussion to seek better understanding. This process allows having different points of view observing the same scene, and interpreting it based on same theories but with a broader perspective. Furthermore, as stated by Stake (1995), triangulation not only looks for confirmation of one meaning but also searches for additional interpretations.

#### 4.3.3 Limitations

While conducting the research, it is necessary to be aware and point out the limitations and constraints. Since the research is carried out within a period of four months, the *number of interviews* is limited. Consequently, it is not possible to perform a large number of interviews and simultaneously analyze and interpret them comprehensively. Therefore, the number of interviews of the present study is limited to five, which might constrain the outcome in terms of comparative data. Moreover, the *context* of the case study needs to be considered. The family firm is situated in Bolivia, meaning that the interviews cannot be conducted face-to-face and in person. Both the *time and geographical constraints* inhibit the possibility of observing the company's operation directly. Thus, the information had to be gathered through interviews and data instead of direct observation of strategic events. The tool used to perform the study is the internet, which in some cases caused some *communication* problems and disturbed the flow of the interview. Additionally, the case study does not claim to be representative for an international context since it is a Bolivian family firm. Consequently, the outcome might not be held *validity* for family firms in other countries. Furthermore, because of time constraints, this case study was performed following a cross-sectional approach, opposite to a longitudinal one, meaning that it studies a particular phenomenon at a particular time (Saunders, Lewis, & Thornhill, 2007).

In terms of *language* constrains, the mother tongue of the interviewees is Spanish, which is why three of the five interviews are conducted in Spanish and translated into English afterwards. The other two interviews left were conducted one in English and one in German. As only one of the researchers speaks Spanish, the findings of the three interviews were subject to one researcher's selection process in terms of the process of acquiring in-depth answers during the interview. The same counts for interview held in German, since only one of the researchers speaks German. Yet, the translation of the interview was interpreted and analyzed by both researchers.

#### **4.4 Research approach**

Saunders, Lewis, and Thornhill (2007) describe different paradigms for the analysis of social theory and research approaches. One of the paradigms is the interpretive paradigm, which is described by Saunders, Lewis, and Thornhill (2007) as the philosophical position, which refers to the way humans attempt to make sense of the world around them. This is the position applied in this case study. To understand the different relationships among the family, the business and its environment, which affect the entrepreneurial orientation, it is necessary to interpret the roles of the different actors. Therefore, it is essential to truly understand and clearly explain the interactions in the family firm and interpret them to make sense of them.

Moreover, Saunders, Lewis, and Thornhill (2007) describe two different research approaches, the deductive and the inductive approach. They define the deductive approach as *a research approach involving the testing of a theoretical proposition by the employment of a research strategy specifically designed for the purpose of its testing*. Further, they describe the inductive approach as *a research approach involving the development of a theory as a result of the observation of empirical data*. Yet, both of them do not have to be applied independently and can also be combined and simultaneously used as described by Saunders, Lewis, and Thornhill (2007).

The actual approach of this case study is partly deductive and partly inductive because it is necessary to understand the cause and effect between capabilities and resources of a family firm and its entrepreneurial orientation applying the theoretical framework "transgenerational entrepreneurship". Hence, the theoretical framework is tested but at the same time it could appear during the data gathering, that the theory needs to be modified or is not valid anymore. Qualitative data is collected to proof the theory that the unique resources and capabilities have an effect on the entrepreneurial orientation of a family firm and to understand how this interaction takes place. The focus of the research might however change and the findings as mentioned before might require a modification of the theory. Therefore, the approach is both deductive and inductive.

The next paragraphs will deal with how the data is gathered, describing the in-depth interviews, data analysis, trustworthiness and the sampling method and sample of the case study.

##### **4.4.1 Data gathering**

The qualitative data is collected by conducting in-depth interviews over a short period. This study has to be conducted and finished within a period of four months, which as mentioned before restricts the research, meaning that the study is limited to a short phase and will not be longitudinal. The purpose of this research is to get a deeper insight into how entrepreneurial orientation can actually cause a competitive advantage and how social capital affects innovativeness and proactiveness within a family firm. In-depth interviews provide the necessary primary data to analyze the problem and identify relationships.

Before conducting the actual interviews, one pre-interview has been conducted with general questions concerning the family firm, its entrepreneurial orientation and performance. Deriving from the outcome of this interview, the following interviews are focused on social capital and its influence on innovativeness and proactiveness, which were identified as the most relevant

elements in this particular case. The questions of this first interview were via email to the interviewee and they can be presented on the Appendices chapter of this document.

Next, the questions for the follow-up interviews were defined emphasizing the two dimensions and social capital. These interviews were sent to the interviewees via email to give the interviewees time to think about the question and provide more profound answers during the actual interview. In total, besides the pre-interview, five interviews will be conducted. Three interviews were held in Spanish by one of the researchers, and the other two interviews were conducted by the other researcher in English and German respectively. More information concerning the sample will be provided subsequently under the heading Purposive Sample.

Besides the primary data, documentary secondary data like reports of the company, transcripts, public records, books, journals and magazine articles about the company have been used. This data provides information that has been used to formulate the questions for the interviews, and that has helped to focus the interviews and support the findings. This secondary data indicates the context of the firm and is referred to whilst analyzing the outcome of the interviews. The subsequent listed reasons motivate the choice of collecting secondary materials:

- to formulate the overall profile of the family and firm;
- to outline key strategic and entrepreneurial acts;
- to illustrate important contingencies (e.g. industry, tax regime, environment);
- to gather like relevant outcomes, annual reports etc. to be aware of the ownership and family governance structures and reporting relationships to achieve “triangulation”, i.e., to back up relevant information collected through the in-depth interviews.

While collecting the data objectivity is ensured by gathering the data accurately in terms of reliability and validity of the data. This will be discussed in more detail in the paragraph “trustworthiness”.

#### 4.4.2 In-depth Interviews

As mentioned before, the interviews were first sent to the interviewees and, afterwards, follow-up interviews were conducted one-to-one via internet. Each interview was audio recorded and notes were taken. Since the family firm of this case study is a Bolivian company, three of the interviews have been conducted in Spanish, which were transcribed and translated into English. The other two interviews followed the same procedure and were conducted in English and German, respectively. The guideline of these five interviews, which were individually adjusted for each interviewee, can be found on the Appendices chapter of this document.

Saunders, Lewis, and Thornhill (2007) categorize interviews in standardized and non-standardized interviews. For this case study, the interviews are non-standardized and semi-structured interviews, which means as stated by Saunders, Lewis, and Thornhill (2007) that there is a list of themes but no absolute structure for the interview. The questions vary and each interview is different concerning the questions, however, each theme has been covered during the interviews. Thus, the order of questions also varied in each interview.

This case study is executed following the research framework developed by the STEP project –a global research project that aims to investigate and understand how families and their businesses develop and pass on entrepreneurial mindsets and capabilities from one generation to another. This project carries out research in close collaboration with a large number of academics and family business owners and managers from around the world and is currently active in Europe, Latin America and Asia-Australia. For reasons of research, the transgenerational entrepreneurship framework has been developed Figure 7. To gather empirical data, an interview guideline has been developed by the STEP project to conduct case studies with family businesses all around the world (CeFEO, 2008). This guideline has been used to formulate questions for the interviews of this case study.

The questions of the interviews are open-ended because the answers should be reflected and elaborated profoundly instead of getting short answers. The interviewee should be able to provide answers that go beyond facts and give insight into the choices and activities and the reasons behind these. The time per interview was estimated to be of approximately one hour. Besides, ethical issues have been kept in mind during the interviews. Hence, interviewees have not been subject to humiliation or any other material disadvantage. During the interviews, follow-up questions have been asked, to get a deeper insight into how and why things are done motivating the answers.

In terms of reliability, the interviews represent a moment in time and are not intended to be repeated. Besides, the findings are also not aimed at generalizing issues. Since the topic is rather complex and dynamic, it would not be possible to undertake standardized interviews that could provide data that could be generalized (Saunders, Lewis, & Thornhill, 2007). This case will be contributing to understanding and modifying the existing theory. Therefore, the non-standardized in-depth interviews are most appropriate to acquire a profound understanding of the research problem (Saunders, Lewis, & Thornhill, 2007).

#### 4.4.3 Data analysis

Yin (2009) argues, that before analyzing the empirical data, it is necessary to choose an analytic strategy, which ensures that the evidence is evaluated consciously, profound conclusions are drawn and misinterpretations are avoided. The strategy chosen for this study is *relying on theoretical propositions* (Yin, 2009). This strategy bases the analysis on the theory that has been used to formulate the propositions of a case study. Since the problem, purpose and research questions of this case study have been drawn from the existing theory, the *relying on theoretical propositions* strategy is the most appropriate analysis strategy to apply. What Yin (2009) also mentions concerning this strategy, is that the theory influences the data collection approach and helps to focus the analysis on specific data that is linked to the propositions previously derived from the theory. Hence, the analysis was structured according to the focus of the research questions and the theory that is to be tested. By using this strategy causal relationships could be detected and, what is more, how and why questions could be answered (Yin, 2009). With regard to the present case study, the theory sets the basis for the definition of the problem by implying the existing gap between the research fields of entrepreneurial orientation and family firms. More specifically, the main problem is to find out how families have an impact on creating social capital and how this affects the behaviour of the family business in terms of innovativeness and proactiveness. Moreover, the connection to the firm's performance in terms of entrepreneurial, social and financial outcomes is made, as well as analysis on how the entrepreneurial orientation contributes to this outcomes and how they can in turn generate transgenerational potential.

Following this problem, the analysis has been structured, first, by analysing the empirical data concerning the family factors influencing social capital, and next, the two dimensions of entrepreneurial orientation, innovativeness and proactiveness were discussed to analyze the interdependence among these and social capital. Subsequently, based on the transgenerational entrepreneurship framework, the data was analyzed by connecting the entrepreneurial orientation to the to the firm's performance and transgenerational potential.

Besides the strategy, Yin (2009) also advises researchers to select a specific analytical technique that assists the researcher in ensuring internal and external validity while analysing the empirical data. The technique chosen for this case study is the *explanation building*, defined as a special type of pattern matching with the purpose of building explanations deriving from the collected data (Yin, 2009). Moreover, this technique's objective is rather to provide recommendations for future research instead of closing a study by presenting a final result (Yin, 2009). This is in line with the purpose of this case study. The goal is to explain the impact of social capital in family firms in terms of its impact on entrepreneurial orientation and firm's performance. Therefore, the analysis



has focussed on narrative explanations, which let to explaining some phenomena in a specific case and provides final recommendations for future research. Yin (2009) formulated the following steps that can be followed by researchers for explanation building, which have also been applied for this case study:

1. Making an initial theoretical statement or an initial proposition about policy or social behaviour → confirming or disconfirming the social capital and transgenerational entrepreneurship theory regarding family firms (with the focus on two dimensions: innovativeness and proactiveness)
2. Comparing the findings of an initial case against a statement or proposition → Coronilla
3. Revising the statement or proposition → confirming, disconfirming or modifying the social capital and transgenerational entrepreneurship theory
4. Comparing other details of the case against the revision

Yin (2009) also describes a fifth and sixth step where more case studies are undertaken and this needs to be repeated several times but since this case study has a time constraint of four months, only one case study has been conducted.

Finally, it is very significant to ensure the highest quality possible when analyzing the empirical data to make the findings valid (Yin, 2009). Yin (2009) states four quality measurements which are that researchers need to *attend to all the evidence, address all major rival interpretations, address the most significant aspects of the case study and using personal prior expert knowledge*. These quality issues have been considered throughout the data analysis. To avoid missing out evidence, both researchers have analyzed independently the empirical data and several meetings where the findings were discussed have been undertaken. Moreover, alternative explanations of the findings have either been excluded or mentioned as recommendations for future investigation. By focussing on the aspect of social capital in family businesses and how this affects certain issues in the company, it has been able to merely address the most relevant aspects for the findings of the case study. Concerning prior expert knowledge, it is necessary to state that the literature and theories applied during the case study have been carefully selected prior to the literature review. Hence, there are more theories and concepts in the field of transgenerational entrepreneurship and family businesses that have not been dealt with in this study. A profound literature review has been formulated and personal collected knowledge from previous studies has facilitated the process of analyzing the data. Yet, this knowledge is not all-embracing, meaning that the findings will be subject to the delimited applied and selected theory and literature of the researchers and can therefore not be generalized.

#### 4.4.4 Trustworthiness (validity and reliability)

Robson (2002) discusses four different issues that can threaten reliability. The first one is *subject or participant bias*. This is the case if the respondents are biased because the boss of the company would not allow them to criticize the company or mention anything that could harm the image of the company. In this case, it is important to guarantee anonymity of the answers given by each interviewee. By doing this, the boss would not find out who actually said what. During this case study, interviews have been conducted one by one via the internet, ensuring that the respondent is the only one participating in the interview and answering the questions of the interviewer. Moreover, the answers of the respondent will be treated anonymously, easing the answering of some questions, which could be critical for the respondent.

The second threat is the *observer error*. This error can be prevented by providing a clear interview schedule. The third one is the *observer bias* meaning that different observers apply different interpretations. Therefore, after the interviews have been conducted both researchers went through the transcriptions independently and interpreted the data. This ensured that without

influencing each other's opinion, the acquired data is analyzed without observer bias. Yet, since each researcher is biased by personal experience and knowledge, some bias will remain.

Finally yet importantly, it is important to be aware of the *subject or participation error*. This means that depending on the time and day of the week, the interviewees have been done in a different context and different mood. This could influence the answers that have been given. The most appropriate time in terms of time of the day and time of the week was chosen by the respondents and agreed by the researchers. Since the interviewees are situated in Bolivia, the time difference needed to be considered. Hence, this also had an impact on the time when the interview took place. Since the interview appointments have been mutually agreed by the interviewer and respondent, the subject and participation error has been minimized. The collected data through the interviews is not to be repeated because it reflects reality at the time it is collected and not a general happening (Saunders, Lewis, & Thornhill, 2007).

Besides reliability, the data also need to be valid to secure valuable findings. Validity ensures that the findings are really about what they appear to be about (Saunders, Lewis, & Thornhill, 2007). In terms of validity, Robson (2002) also defined some threats, which are *history, testing, instrumentation, mortality, maturation* and *ambiguity about causal direction*. In this case, only the threat of ambiguity about causal direction can impact the validity of the findings. Since this research aims to evaluate, how the social capital of the family firm affects proactiveness and innovativeness, and how these in turn affect the performance of the company, it is important to consider that the entrepreneurial orientation and the firm's performance could also be influenced by other factors.

As mentioned before, we do not claim that the findings of this case study can be generalized. Yet, the findings might have a broader theoretical significance and could alter the theoretical framework of transgenerational entrepreneurship.

#### 4.4.5 Purposive sample

As Saunders, Lewis, and Thornhill (2007) describe, purposive sampling enables the researchers to choose the sample by using their own judgement. Several criteria have been set up before the election process to find a family business that would collaborate with this case study. These criterias are defined as follows:

- Family-owned business
- At least 2<sup>nd</sup> generation or higher
- A minimum of 40 employees
- Location: Sweden, Bolivia or Germany
- Registered and acknowledged entrepreneurial activity

The case study will be conducted with a family firm, "Coronilla S.A.", currently located in Bolivia, South America. Coronilla, dedicated to the manufacture of organic food which is sold nationally and internationally, met all the criteria that had been set up for the research. The company, that has been running for more than 30 years and is now facing the transmission towards the third generation of the Wille family, and it has faced a severe restructuring process after a period of crisis in the mid 90s. Moreover, maintaining an entrepreneurial attitude, where strategic renewal, innovation and a long-term perspective are just some of the main elements that contributed to Coronilla's overcoming this period and becoming the company it is today. In 2004, Coronilla received the New Ventures Investor Forum for Biodiversity Award in Lima, Peru. Moreover, in 2005, the company's CEO, Martha E. Wille, received Schwab Foundation's Social Entrepreneur<sup>8</sup> of the Year.

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<sup>8</sup> A social entrepreneur is the one who "drives social innovation and transformation in various fields including education, health, environment and enterprise development. They pursue poverty alleviation goals with entrepreneurial zeal, business methods and the courage to innovate and overcome traditional practices. A social

Concerning the interviews, five different people of the company have been interviewed. Four of them are members of the family and one is a non-family member. Table 2 presents the profile of interviews, and ownership.

<b>Name</b>	<i>Martha E. Wille</i>	<i>Jorge Navarro</i>	<i>Ximena Pelaez</i>	<i>Diego Pelaez</i>	<i>Gerardo Wille</i>
<b>Position</b>	Chief Executive Officer	Director of Commercialization	Director of Logistics	Chief Financial Officer	Chairman, former CEO
<b>Shareholder</b>	6.11%	-	-	-	6.11%
<b>Formal governance</b>	-	-	-	-	Chairman of the board
<b>Relationship</b>	Family	Non-family	Family	Family	Family
<b>Date of the interview</b>	May 06	May 07	May 08	May 13	May 26
<b>Language</b>	Spanish	Spanish	Spanish	English	German
<b>Duration</b>	57 min	69 min	70 min	55 min	30 min
<b>Communication</b>	Via telephone	Via Skype	Via telephone	Via Google Talk	Via telephone
<b>Interviewer</b>	Jimena Lora	Jimena Lora	Jimena Lora	Nina Boers	Nina Boers

**Table 2: Profile of interviews and ownership**

The reason for including a non-family member as one of the people who were interviewed, as described in the introduction, is mainly due to the two subsystems family firms embrace: the family and the business. Moreover, it is necessary to cover both systems with primary data in order to analyze both perspectives and more objective data. This enables the study to represent the different, if not homogeneous, attitudes, objectives and goals existing within the company among involved family and non-family members.

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*entrepreneur, similar to a business entrepreneur, builds strong and sustainable organizations, which are either set up as not-for-profits or companies” (Schwab Foundation for Social Entrepreneurship, 2009).*

## 5 Empirical Findings and Analysis

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*The following chapter aims to present the findings obtained through the in-depth study conducted in collaboration with Coronilla S.A. It combines the information obtained both from primary and secondary data, whereas the former data derives from the performed interviews and will be analyzed under the light of the theory presented in the Literature Review chapter. Specifically, the analysis will be drawn based on the Transgenerational Entrepreneurship framework combined with the social capital theory, and it will trace the entrepreneurial characteristics of Coronilla S.A emphasizing the relationship with the firm's innovative and proactive capacity. The chapter will follow the subsequent structure. First, an overview of the firm will be presented, including Coronilla's mission and vision, philosophy and values, and general data such as organizational structure and family and firm life stage. Next, a description of Coronilla's history and the environment in which it operates will be presented. Finally, an in-depth analysis of the family-influenced conditions resulting on the three dimensions of social capital will be discussed in relation to the two entrepreneurial orientation dimensions, innovativeness and proactiveness.*

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### 5.1.1 Coronilla S.A.

Coronilla S.A. is a family-owned firm that was founded 1972. Located in Cochabamba, Bolivia, "Coronilla is a certified organic agro-processor that offers a complete line of gluten-free snacks and pasta" (Coronilla S.A., 2004-2005). Coronilla is specialized in products obtained from Andean Cereals, and demonstrates its commitment to clients by guaranteeing high-quality products based on the respect for nature and on a deep social philosophy.

### 5.1.2 Goal

*"To be the best producers of gluten free pasta and snacks made from Andean grains and offer these top quality alternatives to Celiacs around the world" (Coronilla S.A., 2004-2005).*

### 5.1.3 Mission

*"Generating wealth for people and contributing to Bolivia's development" (Coronilla S.A., 2004-2005).*

*"We are working to generate financial wellbeing and stability of all those who work in the production chain we are part of; our employees, our suppliers, our partners. In appreciation of their efforts, dedication and hard work, we commit working towards bettering the standard of living of every single one of them" (Coronilla S.A., 2004-2005).*

### 5.1.4 Company philosophy

Coronilla's philosophy is summarized in some of their written core commitments and values:

- **Empowerment of Women:** women represent over 50% of Coronilla's personnel, the empowerment and education of these women to better their life conditions is part of Coronilla's priorities. The company has been supporting and encouraging women to further their education in a variety of domains, among which, unconventional areas such as mechanics, engineering and production.
- **Employing Minorities:** Coronilla also employs people with physical disabilities, an act which in Bolivia is unheard of.
- **Support Organic Agriculture in Marginalized Communities:** Coronilla buys a large proportion of its prime ingredients from impoverished communities of the Bolivian *Altiplano* therefore, providing a source of income and a chance of survival to the rural poor in the region.

- **Fair Trade**<sup>9</sup>: Coronilla is a provider for Fair Trade companies, as its business practices are in accordance with Fair Trade guidelines.
- **Sustainable Environmental Practices**: In addition to promoting organic agriculture which is sustainable and more environmentally friendly than conventional agriculture. The Company has managed to recycle its solid waste completely and was the first firm to respect the City of Cochabamba's Environmental Laws for Companies.

### 5.1.5 Main public achievements

- **2004 - New Ventures Investor Forum for Biodiversity Award**. Recognition for a successful business model that combined economic, social, and environmental perspectives. Coronilla's business plan was recognized for excellence (over 800 other proposals) at the Forum of Investors in New Ventures, winning investment from BID, CAF, UNCTAD and the World Resources Institute (Schwab Foundation for Social Entrepreneurship, 2009).
- **2005 - Schwab Foundation's Social Entrepreneur10 of the Year**. "Martha Wille is absolutely convinced that change can be achieved by reducing the poverty gap, inserting handicapped minorities, incorporating women and through other tasks of a socially conscious nature. She is committed to accomplishing this goal with the help of private companies, the implementing of social enterprise concepts and the deep commitment of all of the members of an organization" (Schwab Foundation for Social Entrepreneurship, 2009).

### 5.1.6 Organizational structure

In order to clarify and facilitate the understanding of the interviewed people and their role within the firm, the organization's current structure can be found in the Appendices chapter of this document.

## 5.2 History

Coronilla S.A. is a pasta-manufacturing firm, located in Cochabamba, Bolivia, founded in 1972 by Guillermo Wille. The founder, who is of Bolivian-German origin, is one of the five sons of a German immigrant, who have begun an entire generation of industrial entrepreneurs. These five brothers founded and brought life to an important fraction of the Bolivian national industry. Some of the most distinguished enterprises created by this entrepreneurial family are *Potosina* (beer factory, still run by the Wille family in the city of Potosi), *Ducal* (beer factory sold to the Quilmes Group in 1996), *Coronilla* (pasta manufacturing, still run by the Wille family in the city of Cochabamba), *Haas* (meat and sausage industry, still run by Hass-Wille in the city of Cochabamba), *Pepsi-Santa Cruz* (sold in 1999 in the city of Santa Cruz) and some other smaller firms.

In 1971, Guillermo, who until then had been the CEO of *Potosina*, the beer company in Potosí, suffered a heart attack and faced the reality of having to leave the city where he had spent most of his life and find a lower-altitude place to live and make business. Therefore, with the support of his wife, who took care of finding a new place, Guillermo and his five children arrived to the

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<sup>9</sup> "Fair Trade is a trading partnership, based on dialogue, transparency and respect, which seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing their rights of, disadvantaged producers and workers – especially in the South" (Fairtrade Labelling Organizations International, 2006).

<sup>10</sup> A social entrepreneur is the one who "drives social innovation and transformation in various fields including education, health, environment and enterprise development. They pursue poverty alleviation goals with entrepreneurial zeal, business methods and the courage to innovate and overcome traditional practices. A social entrepreneur, similar to a business entrepreneur, builds strong and sustainable organizations, which are either set up as not-for-profits or companies" (Schwab Foundation for Social Entrepreneurship, 2009).

city of Cochabamba forty-eight hours after his heart-attack. Once he was completely recovered, he decided to explore a different industry and give birth to *Coronilla Ltda.* (Limited Liability Company).

During the subsequent years, the company experienced an important period of growth. By the end of the 80s, it was consolidated as one of the three biggest pasta factories in the country with a market share of almost 25%. However, a possible deterioration of market conditions started to become evident in the firm's financial results. The contribution margin was one of the first indicators to show the decline effects. A margin that had started at a level of 20% slowly decreased until a level of 15% was reached. In 1990, in order to cope with this situation, Gerardo Wille, Guillermo's son who had just become the company's new CEO, following his "*father's dream*", thought it was the right time and decided to address the problem by applying a vertical integration strategy.

*"It was a very natural process to take over. I have been in the company since its foundation and I already helped my dad with setting up the company ...because I had been working at the company, actively, since 1981 and since I had already been involved in the foundation, the employees knew me for a long time. They respected and trusted me."* (Wille G. , 2009)

This decision resulted in the purchase of a grain mill in order to occupy one more stage in the productive chain value. The decision had a positive outcome for a short period; however, the contribution margin was still exposed to other environmental forces that had a very strong influence on Coronilla's operation.

During the period 1994-1996, Coronilla experienced a deep crisis followed by various efforts to ensure both the firm's and family's stability and survival. The contribution margin had already reached levels lower than 10% and by 1996 reached its lowest point equal to 3%. Some of the environmental forces that triggered and accelerated Coronilla's decline are:

- *Contraband*: the market was flooded with high quality products produced in Chile or Argentina that were illegally brought into the country avoiding tax payments. Competition in both prices and/or quality was almost impossible.
- *Mining*: mineral prices were tumble, and thus a large number of mines were closed along the entire country. Coronilla was supplying its pasta-manufactured products to the country's major mining centers, thus this represented a very important market for the firm.
- *Drugs traffic*: the milling and pasta-manufacturing industries were seen as sectors that generated a lot of money. Thus, the focus of many was on those industries as a superb area for "money laundering". More than one factory was established just to fade the money's provenance from drugs production and traffic. Therefore, it was impossible for Coronilla to compete with such a low level of prices.
- *Unfair Competition*: a large number of local industries evaded taxes and labor regulations, reducing costs unfairly.

From 1995, despite all the undertaken efforts trying to optimize the cost structure, Coronilla started to register losses, and by 1997, a major part of the company was already lost. This crisis entailed the administrative structure of Coronilla to collapse and it challenged the family's strength to overcome this difficult time. At this time, the CEO, Gerardo, decided to give up the firm's management, and Guillermo, the founder and chairman of the board, was not in a position to take over the administration at this point. That was the moment when Martha E. Wille (Gerardo's sister), who had been the administrative-financial manager so far, took over the firm. After a long process of carefully analyzing the existing alternatives, and with the aim of avoiding the firm's bankruptcy, or even the sale of the land where it was settled, a new option arose changing the company's direction and enabling to keep alive a firm that had been the source of satisfaction and pride for the family.

Under Martha E.'s management, supported by the rest of the family shareholders including former CEO, Gerardo, the company began developing top quality, organic, gluten free products made of quinoa, "*canawa*" (Andean grains) and rice. The company redirected its efforts towards unattended international markets and exploited its experience and core competences to serve them with high quality products. This new direction entailed a deep restructuring process where social, environmental values were potentiated, and where an "organic philosophy" could not be separated from a strong social-responsible behavior. The same year (1997), Coronilla began exporting overseas.

In 1999, exporter Coronilla, aiming to finance growth, in a moment where the shareholder's economic capacity to keep investing in the firm had reached the bottom, it had to be recognized that Coronilla had become a great project itself, with potential clients, adequate productive capacity, yet not enough resources to keep operating. Thus, for the first time, the option of opening the ownership structure to external capital was analyzed, and finally, accepted. Coronilla found a potential partner to offer the 45% of the shares, and made a deal with SEAF, a worldwide fund manager that recently was hired by a Bolivian Fund of Capital (FCAB) to manage the fund. The FCAB shared Coronilla's social vision and after an extended negotiation process, they, finally, agreed to close the deal for a "low" amount of money, but with a prospect of stock's buyback after a period of five years. Consequently, Coronilla Ltda. had to change its legal form to *Coronilla S.A.* (Corporation), which entailed a chain of changes in order to professionalize and make the firm's management and operations transparent. The investment was done in 2002 with a 5-year projection, so, as planned, in 2005, the Wille family recovered 100% of the shares and the investment fund stepped out.

In 2003, Coronilla started exporting to the United States, and one year later to Canada. Coronilla kept growing, and its social policies continued progress and became deeper. Today, Coronilla is a company that is making profit, and maintains operations with twelve different countries (Bolivia, Chile, Brazil, United States, Canada, Australia, New Zealand, Israel, Spain, England, Germany and Switzerland). As a part of the internationalization strategy Coronilla decided to follow a *private label strategy*, which was focused on finding an international wholesaler willing to commercialize the product under its own brand and in such way avoid additional advertising costs associated with selling directly to the customer.

The subsequent table outlines the main significant incidents in the history of Coronilla outlining its growth path with the drawbacks and opportunities.

<b>Year</b>	<b>Event</b>	<b>CEO</b>	<b>Strategy description</b>
<b>1972</b>	Coronilla's foundation	Guillermo Wille	Firm focused on pasta-manufacturing, located in Cochabamba, Bolivia.
<b>1972-1989</b>	Period of growth	Guillermo Wille	Coronilla was consolidated as one of the three biggest pasta factories in the country with a market share of almost 25%.
<b>1990</b>	Vertical integration	Gerardo Wille	The contribution margin decreased from 20 to 15% due to external forces. The family decided to purchase a grain mill, and occupy one more stage in the productive chain value. Gerardo takes over.
<b>1994-1996</b>	Mid 90's crisis	Gerardo Wille	The contribution reached its lowest point equal to 3% in 1996. Environmental forces triggered and accelerated Coronilla's decline. By 1997, a major part of the company was lost.

<b>1997</b>	Strategic renewal	Martha E. Wille	Coronilla changes direction towards the international markets. It faces a deep restructuring process where social and environmental values are potentiated. The "organic philosophy" could not be separated from a strong social-responsible behavior. Late that year, Coronilla began exporting overseas. Martha E. takes over.
<b>1997-1999</b>	Creative phase	Martha E. Wille	Focus on new product development, identification of new markets, and better ways of doing things.
<b>2002</b>	Opening to external capital	Martha E. Wille	Due to the need of capital to keep investing in the project Coronilla opens its ownership to an external investment fund and goes public (sells 45% of the ownership) with a five-year plan to buy-back the shares.
<b>2005</b>	Coronilla buys-back the shares	Martha E. Wille	The Wille family recovers 100% of the shares and the investment fund steps out.
<b>2009</b>	New challenges	Martha E. Wille	Coronilla is currently facing the challenge to prepare upcoming generations to take over and get involved in this transmission process. The financial crisis is affecting the business, but Coronilla is optimistic in keep moving fast and maintain the family values in order to stay profitable.

Table 3: Historical evolution of strategic events and critical incidents

### 5.3 Contextual factors

The contextual factors of the transgenerational entrepreneurship framework will be described in terms of the family firm life stage and family member's involvement, as well as, in terms of the competitive environment, the industry, and the community in general. The *family stage*, in terms of the number of generations involved in the family can be described as follows. Coronilla is currently entirely owned by family members of the both the first and second generation of the Wille family. In terms of the second generation family members' involvement, Martha E. Wille occupies the Chief Executive Manager position and her brother and former CEO, Gerardo Wille, is the current chairman of the Board. Even though the third generation has not yet been involved in the firm's ownership, two family members, Ximena and Diego Peláez W., are currently part of the management team in the areas of Logistics and Finance. Moreover, other family members of the third generation have started to take part of the shareholders' meeting without formal voting rights, as an initiative to foster their involvement in the firm and facilitate the transition process towards this new stage.

The competitive environment, as described by the interviewees, is divided according to the two targeted markets. Whereas, on one hand, the internal market presents a fierce competition with a large variety of substitutes, a mature product life-cycle, and a more homogeneous offer; on the other hand, the export products are one of a kind in Bolivia, and actually benefit from the advantages of this monopoly. However, in the export industry, the importance of time plays a very important role, as said by the Logistics Manager, which requires an innovative and more dynamic firm's behavior to allow a more rapid problem resolution and an earlier decision making. By having a proactive approach after the 1997 crisis, Coronilla is now in a situation that offers great potential in terms of existing products and new markets. Yet, in order to benefit from this potential, the industry forces require Coronilla's maintenance of high levels of flexibility to adjust to changes in the competitive and environmental forces.



Finally, the company has been able to build throughout the years a strong and positive reputation within the community. The public achievements, the family values, and the strong social focus held by Coronilla, are just some of the factors that create a positive environment regarding this social aspect. However, it is worth mentioning, that regardless the corporate social responsible practices that the firm implements, the business has not received enough support coming from the government's side, in terms of policies and regulation.

## 5.4 Familiness and social capital

The following section will focus on the analysis of social capital as a resource determined by family-influenced conditions. Moreover, it will present the three dimensions –structural, cognitive and relational– that constitute social capital and define its “*familiness*” potential.

### 5.4.1 Development conditions for social capital in family firms

As described in the literature review, there are four conditions supporting the development of social capital in family firms. These four conditions are time/stability, interdependence, interaction and closure (Nahapiet & Ghoshal, 1998). The following section will discuss the findings of the interviews in terms of how the conditions shape the social capital setting. Moreover, there is an existent overlapping to some degree among these four factors, and they also present a cause and effect among each other (Nahapiet & Ghoshal, 1998), the analysis will, as well, present some overlaps in its content. Still it is necessary to analyze them separately to be able to evaluate to which extent and in what way the main conditions are fostering the different dimensions of social capital.

The chapter will be structured following the four main conditions that cause the development of social capital in an organization. Hence, first the condition of *time and stability* is discussed, which refers to the importance of the history and tradition of the family firm in terms of stable and durable relationships. Secondly, the condition of *interdependence* is analyzed, which identifies the level of interdependence among family members. Next, the condition of *interaction* is emphasized, which describes the way of communication and decision making applied in the organization and finally, the condition of *closure* is referred to, which is concerned with borders that are drawn between family members and non-family members through norms, codes and also language.

#### Time and Stability

As described before, in family firms, time and stability are conditions that are concerned with stable relations and the investments made in these over time. Moreover, they are upon which the development social capital in an organization highly depends (Nahapiet & Ghoshal, 1998). Coronilla is a family firm that has always focused on social relations and on building a social organization over time. This already started when the company was founded by the father of the current CEO. The CEO mentioned during the interview the following:

*“My father had always been characterized for being well advanced in the field of labor and social legislation, adopting the most favorable conditions for his working team, so we tried to expand this way of thinking and logic, inherited from my father, not only to the workers but also to small farmers.” (Wille, 2009)*

This quote clearly demonstrates that the father was already been concerned with building a good team among employees and providing good working conditions for the employees. This emphasis on stressing the well-being of the employees shows how important relationships are for the company and especially keeping these relationships over a long period. The family regards the employees as capital that is necessary for the company to survive on a long-term. Hence, the constant development of an enduring structure, that ensures strong and stable relationships among the organization, will also cause clarity and visibility of mutual obligations (Nahapiet &

Ghoshal, 1998). Moreover, according to Nahapiet and Ghoshal (1998) this also fosters the relationships and it helps implementing norms and trust among the organization. Also the previous CEO, the brother of the current CEO says concerning is taking over as follows:

*"However, because I have been working at the company since 1981 actively and since I have already been involved in the foundation, the employees knew me for a long time. They respected and trusted me. I had no problem with the employees when taking over." (Wille G. , 2009)*

This shows that the long-term relationship with the employees has helped and facilitated the succession process, respecting the new CEO. Moreover, this demonstrates the family influence on this condition, since he has only been involved in the foundation of the company because he was the son of the founder.

In addition, the Commercial Director emphasizes the maintenance of these norms and values that have been created with the foundation of the company and which are still present in the company nowadays. This indicates that that the company also focuses on stability, which is also stated by the Head of Logistics who is the daughter of the CEO.

*"Thus, we potentiate the benefits of working together. This is my grandfather's heritage, is the company to which my mother has committed her entire life, it is the firm that we have seen grow and we are working in, and is the company that we want to leave to our children; that is why we will keep working to achieve this goal." (Pelaez X. , 2009)*

This demonstrates that the company believes in continuity building social norms and trust in the company over generations. This stability and tradition not only has an impact on the internal relations but also the external relations with clients and suppliers as the subsequent quote shows.

*"...but at the same time it is very important for our external clients for us to have a history (a founder, being family-owned, a reputation, social values, etc). The network we have now is the result of a lot of work, we make sure that our story is known, but it is not because of the family relationships, it is because we make sure we talk about our past." (Pelaez X. , 2009)*

By repeatedly telling these stories, illustrating the history of the company and emphasizing the values the company creates a condition for building social capital through time and stability. The history of the family and its tradition is therefore consciously used to build relationships and build a positive reputation to increase the external network and foster long-term relationships with clients and suppliers.

### Interdependence

Interdependence as discussed by Nahapiet and Ghoshal (1998) is related to social identification, encouraging norms of cooperation, and risk taking. The high identification of the people working at Coronilla can be seen through the high commitment of the employees and also the family. They regard it as their duty to put all their efforts into the business. In terms of the family this high commitment is caused due to the dependency of their wealth on the success of the company. However, also employees are interdependent and identify greatly with the company. As mentioned by the Commercial Director, *"they trust the family and they feel they belong to the company"* (Navarro, 2009). Regarding the family processes of taking over, it can be pointed as a natural process where family members are even willing to give up personal interests for supporting and working actively in the company.

*"...the transmission from my father to my brother followed a natural process without a specific procedure. They had always worked very closely and it was natural to think that it corresponded for him to assume the management." (Wille, 2009)*

This statement from the CEO explicitly illustrates the natural proceedings and that the family members take it for granted to sacrifice everything necessary for the company showing that they

have a feeling of obligation. As Ximena mentions "...working together has become a strength in terms of support, commitment, and trust." (Pelaez X. , 2009), also Diego says "decisions are more emotional and you are more committed because it is your family." (Pelaez D. , 2009). Both statements express solidarity with the company and show high commitment and the support for the company. The CEO also says that it is important to get the next generation involved not only increase their understanding of the business but also to make them committed and attached to the business.

*"...start getting the next generation involved if not in operations but as part of the shareholders bimonthly meeting in order to start understanding the business and feeling attached to it." (Wille M. E., 2009)*

This shows that the interdependence is greatly influenced by the family. Moreover, relations among the members and individual duties, of family members towards the family, cause stronger connections among family members. As Diego, the son of the CEO says: "in 1997 I finished high school and went to Germany to study music (piano) for 6 months. Then I received a phone call from my mum that she needs my help. This was the first time that I thought about where the money comes from. So I went back to Bolivia and started studying at a local university in Bolivia. That is when I started to become interested in the company and had my first contacts with the company" (Pelaez D. , 2009) demonstrating his solidarity with the family to give up his personal goals and go back to support the business. Each family member is aware of the fact that they depend on the other family members and that their wealth is greatly dependent on the decisions made within the family, hence the relations are very interdependent. The latter quote of CEO's son also indicates the willingness to take higher risks based on solidarity and trust, which according to Nahapiet and Ghoshal (1998) is another issue that has been associated with interdependence. Moreover, the Commercial Director also points out the good cooperation and risk taking attitude of the employees due to their interdependence:

*"Martha has a strong personality so most of her decisions are not argued by the personnel. This arises from the fact that on one hand they respect what the owner says (not to contradict the leadership), and on the other hand, from the fact that they trust the family and they feel they belong to the company so whatever says the owner is right." (Navarro, 2009)*

To conclude, the company has a high degree of interdependence among the family members as well as the non-family members, demonstrating a high identification and commitment causing a good cooperation among the company.

### Interaction

Interaction as discussed by Nahapiet and Ghoshal (1998) is classified with the terms conversation, social events and meetings. In terms of conversation within the company, a formal way of communicating among family members and non-family members, and a rather informal communication among merely family members, can be recognized. Yet, the communication is mostly described as open where everybody dares to speak up and expresses their opinion.

*"...it is possible to discuss more effectively and openly about the issues, even though we also have non-family members in key positions as well." (Wille, 2009)*

This statement demonstrates the open communication structure within the company and the latter statement illustrates that the family actively fosters this involvement of everyone working in the company. By giving rewards to people for coming up with ideas, open communication is facilitated and the creative process is decentralized. Providing these rewards also gives the people who work at the company the impression and feeling that their opinion is important to the family as leaders and owners of the organization, facilitating an open communication channel.

*"Furthermore, I perceive a big commitment from the side of the entire personnel; everyone gets involved in the projects and feels free to participate with new ideas." (Pelaez X. , 2009). "Everybody talks to each other and we also talk a lot to the family members that are not actively involved in the family business." (Pelaez D. , 2009)*

These two statements verify that constant conversation and information flow is taking place throughout the company also confirmed by the former CEO Gerardo when he said:

*"Coronilla is rather run as a big family than a business. Relationships are stronger and we communicate very much with everybody. It is a very flat hierarchical structure, which strengthens the relationships."* (Wille G. , 2009).

Yet, there are also some issues in the company, that show that the communication among the organization still requires improvement ensuring the development of social capital.

*"Therefore, we created a new department to innovate new products and other things. The department meets regularly to discuss new ideas and evaluate what can be improved in the company."* (Pelaez D. , 2009)

The creation of the department which engages several people of the organization in regular meetings also fosters the interaction among employees of the company. Moreover, the company also focuses on having constant interaction with their clients as described by the Head of Logistics *"We are working all the time trying to find better ways to serve our customers to make the operations more effective. In the export industry, it is all about time, so we try to provide information as soon as possible give extra services to the client (advice, information, alternatives)"* (Pelaez X. , 2009). Therefore, there is a constant exchange and interaction between the company and its customers exchanging information. The importance of keeping this condition to facilitate interaction through constant conversations and social events is emphasized by the Commercial Director:

*"If you talk to the owners, Coronilla is their life and passion, but this deep feeling has to be transmitted to the rest of the organization. Individuals goals have to be considered to reach success and foster the firm's potential."* (Navarro, 2009)

### Closure

Closure is associated with the development of norms, identity and trust as well as the development of unique codes and language (Nahapiet & Ghoshal, 1998). Moreover, Nahapiet and Ghoshal describe closure considering boundaries that are set in terms of legal issues, financial issues and social issues. Considering the kind of closure existing in the company and referring to the interviews conducted, it can be indicated that there is a strong identity of the people working at the company with the company itself. All the respondents of the interviews used the term "we" when talking about the company. This shows that everybody feels being part of the company, showing a strong association of the people working at the company with the identity of the organization.

*"...we decide to focus on ecological production so we started working with the small farmers focused in organic production in order to promote it. We had to consider that an organic philosophy also implies a more developed social philosophy..."* (Wille, 2009)

*"...we do have competition, especially in the part of snacks, where we face a fierce competition."* (Navarro, 2009)

*"We realized that what we were doing was not taking us anywhere, but the decision itself was intuitive."* (Pelaez X. , 2009)

Additionally, the actions taken by the company like cooperating with poor suppliers and hiring minority groups within society set boundaries regarding what the company stands for and what it embraces. This fosters the relationships within the groups that also share these values set by the company, internally and externally.

*"I see that there is a strong cohesion between all of us working at Coronilla, we have found the way to combine our capabilities and potentiate our commitment."* (Pelaez X. , 2009)

*“Our suppliers were not any suppliers but poorest suppliers located in the Bolivian Altiplano, and like this we started incorporating a set of intangible values and dreams to the company.” (Wille, 2009)*

Moreover, the company developed after the crisis a new direction for the company, based on one idea everybody of the company had supported and still supports entirely setting clear boundaries of what the company wants to represent. This has been expressed by Gerardo, saying:

*“This new idea fascinated each person working at Coronilla. Everybody until today supports this idea entirely. Something like that did not exist before the crisis, an idea that really everybody in the company supported. The company now stands for quality, which is something everybody can associate with.” (Wille G. , 2009)*

Yet, the company has to be aware that they need to keep fostering the closure within the company, otherwise it could hinder the development of social capital if closure is disappearing. This is expressed by the commercial director in the subsequent statements.

*“Martha has a strong personality so most of her decisions are not argued by the personnel... This has been lately changing and people are more participative and give more ideas, and they are more critical but not enough.” (Navarro, 2009)*

The high involvement of the family in the business and the deriving emotional processes can hinder objective decisions and constrain an open view for possible opportunities. Moreover, if the closure is only high among the family members, non-family members can feel left out like described by the commercial director. Opinions and decisions made by the family might be left unquestioned, the appropriability of decisions made, and actions taken could be taken for granted although it might not be the appropriate approach or decision.

#### Summary conditions for the development of social capital

The following Figure 10 outlines the main findings for each of the four conditions of the company for the development of social capital, which have been discussed in the previous section.

### Time/Stability

- Good working conditions and well-being of employees, suppliers and clients
- Win-win situation for anybody involved with the company (internal and external)
- Maintenance of norms and values
- Continuously building social norms and trust
- Reputation, tradition, history maintained and spread through storytelling

### Interdependence

- Relation family-business: Family wealth depends greatly on success of the company
- Sacrificing personal needs and taking responsibility are described as natural processes
- Feeling of obligation to support each other
- Solidarity: commitment and working together
- Risk taking: underlying trust and solidarity cause conceding of personal goals
- Interdependence between family members and nonfamily members exists

### Interaction

- Involvement fostered through reward system
- Feeling of belonging and importance, opinions are more constantly expressed
- Mutual interaction, decentralized creative process and open communication
- Meetings including family and nonfamily members facilitating constant exchange and sharing of information

### Closure

- *Family closure*: setting boundaries through creating family values, norms and trust with employees, clients and suppliers
- *Company closure*: boundary through implementing fair treatment activities like hiring minority groups, equal treatment among employees, suppliers and clients, fair trade involvement, community involvement in terms of using suppliers that are located in poor regions
- Using these boundaries to set a clear image
- Boundaries should not constrain the involvement of nonfamily member

Figure 10: Summary conditions for the development of social capital

#### 5.4.2 Social capital dimensions

Now that the conditions upon which social capital is constructed and developed have been analyzed and clarified, the next section will analyze the three social capital dimensions of Coronilla S.A. As presented in the theoretical section of this study, social capital's dimensions, as defined by Nahapiet and Ghoshal (1998), can be categorized in structural, relational and cognitive patterns. Considering the existent literature on this topic, social capital is constantly influencing the way this firm recombines resources towards the creation of competitive advantage and thus, family businesses' performance (Salvato & Melin, 2008; Nordqvist, Zellweger, & Habbershon, 2009). Therefore, in order to identify the way Coronilla's embedded social system and connections are influencing its entrepreneurial behavior, it is important to carefully analyze and understand how are these elements organized, how do they relate to each other and finally, what are the elements that enable this unique connection. In this sense, the subsequent analysis will, at all times, follow the "familiness" reasoning and will analyze Coronilla's social capital dimensions under the lenses of RBV theory explained in Section 2.1.3 of this paper. Moreover, after the aim of defining which dimension is more relevant for Coronilla's effective or constrain use of social capital, the analysis will go into depth specifically in matters that are family-influenced

### Structural dimension

Social interactions have played a very important role throughout Coronilla's history. As a family firm, the social and business networks in which Coronilla has been enrolled evince a clear transferability process among generations. However, the transformations suffered during the years are also apparent and clearly influential, as a result of changes related to people's involvement, new strategies, or crisis' overcoming. This section will focus on Coronilla's structural dimension in terms of networks, social ties, and organizational *appropriability*. The Head of Logistics, Ximena, clarifies in the following quote the way the company's network is structured and how it is influenced by the family:

*"At a local level it is very important to have a network, good reputation, etc. However, we export 90% of our production, and it is hard to keep contacts all around the globe. Even so, at the same time it is very important for our external clients for us to have a history (a founder, family ownership, a reputation, social values, etc)." (Pelaez X. , 2009)*

Coronilla's new structure, resulting from the strategic renewal in 1997 becoming a more internationally focused firm, pushes the firm towards a more business-oriented networking. Compared to the initial years of Coronilla, where "Don Guillermo" built a network and gradually transferred it to his son Gerardo, as the succeeding CEO and then, to the rest of his sons and daughters involved in the business; since 1997, Martha has had to restore local networks and, moreover, develop external ones.

*"The network we have now is the result of a lot of hard work; we make sure that our story is known. This doesn't happen due to family relationships, especially internationally, it happens because we make sure that we talk about our past (i.e. presentation as a family-owned firm on the website), which of course is marked by the family-influence." (Pelaez X. , 2009)*

Regarding the network characteristics, density and connectivity, it is possible to identify both positive and negative influences. In the first aspect, Martha's role as the one starting new contacts, holding existing relationships and closing deals, represents a very centralized connection. *"She is Coronilla's image... She has a big network and is usually responsible for the connections"* (Pelaez D. , 2009). This high *density* of network as pointed out by Salvato (2006) might have a negative impact in terms of less diverse information and inefficient innovative outcomes. However, this issue will be discussed later on when the firm's family-influenced entrepreneurial orientation is analyzed and evaluated. Moreover, the Commercial Director, Jorge, mentions the long-term relationships that have been strongly built by both Gerardo and Martha in the business and social fields. Yet, he also highlights the important role of the other family-inherited connections.

*"It is also important to highlight, that besides Coronilla there is a family behind (the Wille family) that represents many years of tradition and has a very positive reputation." (Navarro, 2009)*

In the second aspect, *connectivity*, Coronilla has developed a flat structure that allows closer social ties and fluent communication. Martha describes this matter in the following way: *"right now, having the chance of counting with family members in key positions is a truly treasure for the company... decisions are taken more quickly, and it is possible to discuss more effectively and openly about any issue"* (Wille, 2009). Moreover, this connection is extended to non-family members as well. Jorge illustrates this with his own experience, he had been in touch with the Wille family and Coronilla long before working there, first as a supplier, then as a businessman and active member of local chambers of commerce and industry, and finally, as a family friend among a shared social network with Martha and Guillermo. He says: *"I have both a friendship and professional relationship with Martha. Because of this trust-based relationship, I can speak more freely with her and maintain autonomy in my decisions"* (Navarro, 2009). Furthermore, Ximena refers to the communication process when it comes to the firm in general and, especially, lower hierarchical levels by stating:

*"We fight against bureaucracy... On one hand, we know that certain formality is needed (i.e. process and quality certifications); however, we do not want to give away the advantages of smallness. If an employee in the factory comes up with a new idea (i.e. product, process improvement, and identification of client's needs) the steps to get to the CEO or any of the family or non-family Directors are not many." (Pelaez X. , 2009)*

Obvious leadership, long-term vision, and reputation are some of the family-influenced factors that have facilitated Coronilla's relationships with international organizations, funding institutions, business partners, clients and suppliers. In addition, currently the company has put serious efforts in developing an appropriable organization. Based on Coleman's (1988) definition of appropriable organization as *"how ties among one group could easily be transferred to another"*, it is evident that Coronilla has started working on this transferability process in different levels. First, in terms of clients, they are free to maintain relationships with any member of the management team with whom they feel comfortable trading. Second, the company's efforts for becoming 'more professionally-managed' have created more formal channels to adapt the family network towards a more business-oriented set of connections. Finally, in line with the transgenerational aspiration, the company has started to get the third generation involved in the shareholder meetings, not only to get more fresh and distinct perspectives of the business, which will be discussed under the innovativeness heading, but also to ease this transferability of the social capital structure. Diego summarizes his perception in the following citation: *"she (Martha) has a big network and is usually responsible for the connections. But I also have some contacts and started to build my own network. I think it is very important to have my own connections as well"* (Pelaez D. , 2009)

#### Relational dimension

The importance of the relational dimension for family firms has been stated and emphasized by different researchers along the years. While Arregle, Hitt, Sirmon, and Very (2007) point out the way family relationships are nurtured and matured by recurring interaction and interdependence, Pearson, Carr, & Shaw (2008) consider family firms as *"fertile grounds for resilient trust"*. Regarding Coronilla's relational dimension the feature that stands out the most is trust. In line with existing research, Coronilla shows a *"fertile ground for resilient trust"* (Pearson, Carr, & Shaw, 2008). The company's history shows how trust has enabled family cohesion even during moments when it had to face severe crisis. During the restructuring process faced in 1997, Martha recalls:

*"The project was not fully trusted by the entire family, they felt that the future of the company was very uncertain, and saw differences on the way the company was now being managed compared to my father's way of doing it... I had to transmit new dreams, my dreams, to the rest of shareholders, and convince them to follow this alternative. Now that we have overcome this stage and the family's trust has been rebuilt, I think it constitutes an invaluable advantage." (Wille, 2009)*

The family's *trust* has been built upon shared experiences, crisis, and learning process. Ximena says: *"I think that working together has become strength in terms of support, commitment, and trust"* (Pelaez X. , 2009). Trust among family members can be also linked to the communication process. Trust frees the channels to have open communication and fluent discussions, *"we all shareholders discussed, agreed on this idea, and supported it"*, says Martha, in reference to the vertical integration of 1990 when they decided to buy the mill. Moreover, trust, has also external positive outcomes when it comes to the way Coronilla is seen by the outer world as a family business, *"because we are a family business, suppliers, clients, institutions, and employees feel that they can trust us, they believe in the firm's stability and continuity. They trust the fact that a new CEO will not come and change everything overnight"* (Pelaez X. , 2009). What is more, trust is a key element and important value that plays a vital role for strategic decision-making. For example, during the capitalization process of 2002, what the family was looking for was an organization that *trusted* the project, and thus, was willing to invest under the buyback conditions stated by the family. This is something that has been taken even further and



is very positive today, when Coronilla is analyzing the possibility of opening up once again to external financial sources. During the interview Martha illustrated these effects by saying that she received a call and was offered funding "...because they (the investors) considered Coronilla a family enterprise with a lot of tradition, a very reliable company that had been in the market for a long time" (Wille, 2009).

*"Being a family business, together with our structure and philosophy, gives a greater level of trustworthiness in the international context. For example, we establish a better contact with our clients, because we are a family business – this might be because our long-run perspective but I think this is definitively strength."* (Wille, 2009)

Going back to the restructuring moment in 1997, the existing norms became evident. Norms determine the degree of consensus and thus influence the exchange process when recombining resources (Salvato C. , 2006). *"Coronilla was a firm that gave us great satisfaction for many years; we were not willing to terminate the business... I felt that it was my responsibility to assume the leadership. So me and my sister, who has a very broad vision, decided that this project was worth developing and I assumed the management of the firm"* (Wille, 2009). This attitude shows how the options were being biased towards finding the way to help Coronilla survive; even though the firm's crisis triggered an internal family crisis that resulted in Gerardo's resignation, it was taken for granted that it was a moment to cooperate with each other and steer the firm towards endurance. *"If Coronilla had not have had this family nucleus of strength the company would had been sold and terminated"*, says Martha.

When it comes to upcoming generations identity and obligations, in terms of commitment to the firm and seeing themselves as future owners, the family's inclusion of the third generation in shareholder's meetings has the purpose of helping them *"learn about the values, about the company, and experience what it feels like to own the company and move it forward"* (Pelaez X. , 2009). The next quote also shows the deep commitment and identification with the firm, *"It is worth mentioning that the family remains completely committed to the company (they have lived and grown with it)... if you talk to the owners, Coronilla is their life and passion"* (Navarro, 2009), however, the non-family Commercial Director also underlines the importance of transferring this commitment and passion to the latter generations, not only to the members actively working at the firm but also to the non-involved third generation members that might start showing the desire of working at the firm or taking part of their grandparents legacy as well. As mentioned in the analysis about closure, as one of the conditions shaping social capital, it was clear during the interviews with family members that they all saw themselves as part of a collective, they always used the word "we" and referred to themselves as a part of the family.

All the elements analyzed in this section, identification, commitment, norms and trust, are crucial when it comes to pursuing goals. Coronilla has made very clear the diverse objectives that keep the company moving, where social and entrepreneurial outcomes play an important role in terms of how the financial results are achieved. As a result, the relational dimension of social capital described above, shape an important issue to consider when analyzing the firms entrepreneurial behavior.

#### Cognitive dimension

Social capital's cognitive dimension in family business results from the way families share the same vision, a unique way of communicating, embedded values and common narratives (Pearson, Carr, & Shaw, 2008; Salvato & Melin, 2008). Coronilla's 37 years of experience show a long line filled with common experiences, values, and learning. The relational and structural dimensions described previously entail an intuitive common thinking that results from years of sharing and working together. Martha, the CEO, refers constantly to the embedded values her father transmitted to her and that she decided to adopt and develop even more, *"my father had always been characterized for being well advanced in the field of labor and social legislation, adopting the most favorable*

*conditions for his working team, so we tried to expand this way of thinking and logic, inherited from my father, not only to the workers but also to small famers” (Wille, 2009). In the third generation, Ximena: “we keep developing these policies even further, supporting the poorest people of the country, women, people with disabilities, etc.” and Diego: “as a family business you represent values and more people trust you”, agree with their mother by pointing out that this is not a conscious transfer, yet both describe the entrepreneurial activity of the firm as a way of living based on strong family values.*

*“Along history, the family has generated employment, created new companies; it has always been very strong and creative when it comes to business. I don’t know exactly how this is transmitted but I think that this mindset and way of living characterizes the family” (Pelaez X. , 2009). “This is not a way of thinking; this is a way of living... When children see an entrepreneurial parent, they imitate this attitude and moreover, they take part of it and accompany it.” (Wille, 2009)*

These two phrases show how embedded the cognitive dimension in the Wille family is. It is apparent how among different generations they not only share the same values, but also share the same way of expressing themselves, *“it is a way of living”*. Jorge, as a non-family member acknowledges the family’s values and the way they are spread among to the entire organization. He says: *“there are two main values that are ‘Don Guillermo’s heritage’, compliance with the rules and laws and compliance with the values of the people be free, to be worthy (social vision); and I think this premises are still respected and maintained as family-inherited” (Navarro, 2009)*. These family values can be clearly identified in Coronilla’s practices today as a firm that cares not only about its profit but also about its employees, suppliers, and clients. ‘Don Guillermo’s heritage’, the history of how the company was started and managed throughout the rough times is something that feeds the family pride. They are all proud of what the grandfather has created, of what Gerardo has expanded and about what Martha has managed to keep alive and successful. Martha’s Social Entrepreneur Award, Coronilla’s New Ventures Investor Forum for Biodiversity Award and Fair Trade commitment, are just some of the outcomes that make the family proud and outline the path to follow. Ximena refers to these awards as *“a great honor and the result of a different way of working”*, alike Martha says: *“this is a great honor and value for the company, even if this is not shown in the balance sheet or as dividends they constitute an important asset for the history of Coronilla. It is very rewarding to know that the business model we are employing is replicable and imitable”*. This shows how mother and daughter value social outcomes in the same way.

Communication has also played a crucial role in the firm’s social capital creation, clearly sharing the same values, and vision enhances the communication process. During the interview Martha referred several times to the importance of discussing strategic decisions, conversing about new ideas, and developing new projects and concepts based on the exchange of different perspectives (family and non-family, older and younger generations, shareholders and operatively-involved family members). *“It is there (referring to the shareholder’s meetings) where we discuss plans, and draw new ideas. We think that the 3<sup>rd</sup> generation has become very active in this sense”* says the CEO, Martha, *“the family helps to discuss the ideas; especially it helps in the development process where the ideas are taken further or adjusted according to the different points of view” (Pelaez X. , 2009)*. From a non-family member point of view, the Commercial Director states *“I think that there is a special communication that enables the information-flow especially for decision-making” (Navarro, 2009)*. Moreover, he points out two types of communication that so far have functioned positively for Coronilla, *“the formal, within the firm communication, and the more informal channel”*. However, he also suggests the creation of more formal channels that would help to formalize this communication, *“even though so far (the two types of communication) have been working well, I think it is necessary due to the potential complexity of having more family members getting involved” (Navarro, 2009)*.

Finally, regarding Coronilla’s vision, the answers in the interview reflect a high level of cohesion and clear ideas about the future path of the company. The future of Coronilla, as described by the CEO is summarized like this: *“...the next step, besides being a beautiful enterprise with important values, is for Coronilla to become a highly profitable with even more growth”*. Jorge summarizes *“we need to*

*solve the financial issue first (profitability), then the entrepreneurial aspect (expansion to new projects and markets) and finally, the social aspect (especially family challenges, define the operational involvement, new generation's shareholders, non-family members' involvement)". Ximena also refers to the profitability and expansion issues, however, she highlights the family issue by stating: "we need to incorporate next generations gradually, so they familiarize with firm and the business to have a successful transferability process". Lastly, Diego cites as the main goal being able to keep in mind the different family members and interests, "taking into account the perspectives of all the shareholders". However, he also refers to their social values and commitment with the community "we want to raise their level of life and create wealth for everybody who is working for and with Coronilla" (Pelaez D. , 2009).*

### Summary of the social capital dimensions

Subsequently, Figure 11 will illustrate the main outcome from the analysis of the three dimensions – structural, relational and cognitive – apparent in the company to exhibit the most relevant issues.

#### **Structural Dimension**

- Networks:
  - transition to a more professional networking
  - density of networks: very centralized (CEO) in terms of decision-making
  - long-term relationships
  - inherited networks
  - connectivity: flat structure
- Social ties:
  - close relationships and fluent communication
  - obvious leadership, long-term vision and reputation as facilitators for network building
- Organizational appropriability
  - network transferability from generation to generation, from family to company and within internal groups

#### **Relational Dimension**

- Trust
  - trust-based decision making and communication
  - shared experiences enabling family cohesion
- Norms
  - facilitator for exchange process and cooperation among family members
- Identity and obligations
  - high levels of commitment creating a sense of belonging and clarifying the identity of the family as a group

#### **Cognitive Dimension**

- Shared vision
  - clear ideas about the future path of the company
- Shared language
  - unique way of communication
  - use of the same expressions
  - constant discussion
- Shared values
  - enduring values through generations and transmission of these throughout the organization
- Shared narratives
  - enriching history and achievement
  - family pride

Figure 11: Summary of the social capital dimensions

### 5.4.3 The development of social capital through the family specific conditions

Now, that the four different family-based conditions –time/stability, interdependence, interaction and closure– which support the development of social capital's dimensions –structural, relational and cognitive– have been analyzed, the relation between these two aspects of social capital will be analyzed. As previously discussed in the literature review, and indicated by Pearson, Carr, and Shaw (2008) the "*antecedent conditions for the development of social capital are what family firms do best, and, as such, family firms have the potential to develop dense and highly valuable social capital more effectively than other firms*". These four conditions are therefore further exploited in family firms and are comprising the family factor that shapes the social capital of a firm. As a result, the social capital, subsequently labeled with the three dimensions, reflects this family influenced conditions and, thus, presents the uniqueness of the social capital as family-influenced resource. The following section will particularly address, for each dimension, the most relevant and influential conditions nurturing development of social capital in the company.

#### Structural Dimension

Three issues, the networks, the social ties and the organizational *appropriability* have illustrated the structural dimension of the company. These are influenced mainly by the time/stability condition, the interaction and the closure. Through constantly building social norms and trust over time, and by emphasizing and utilizing the company's history, the organization has built strong networks and social ties with a focus on continuance. Besides, Coronilla stressed the maintenance of norms and values that guaranteed that networks were transferred from generation to generation, from family to company and within internal groups, which is also derived from building an enduring structure with a focus on stability and continuity in and outside the company. Another feature stimulating establishment of social ties in the company is interaction. The family has fostered decentralized creative processes and open communication through mutual interaction, which led to higher connectivity through a flatter structure within the organization. In addition, the company holds highly dense networks, which are very centralized, and long-term relationships resulting, in part, from inherited networks, which can be related to the condition of interaction associated to constant exchange and sharing of information.

The last condition that encourages the structural dimension is closure. The closure in the organization has been divided in family and company closure, where the family closure condition sets boundaries through creating family values, norms and trust, and therefore provides a source for obvious leadership, long-term vision and reputation as facilitators for network building. The company closure identifies boundaries through implementing fair trade activities, which help with professional networking and building strong relationships with external and internal stakeholders.

#### Relational Dimension

The relational dimension of social capital is expressed in the company in the areas of trust, norms, identity and obligations. Two main features of trust are the trust-based decision-making and communication in the company and the shared experiences, which enable family cohesion. These two features are founded in the time and stability condition, which is present in the company, displayed through the continuously building of social norms and trust of the family over generations, already starting with the foundation of the company lasting until the current situation of the organization. The mutual interaction in the company, which is stressed by the family through informal and formal communication channels, is creating durable norms, which consecutively act as a facilitator for exchange process and cooperation among family members.

The vast interdependence detected in the company has a great affect on the degree of identity and the obligation perception of the members of the company. The family members are highly committed and put an immense emphasis on working together due to their feeling of

responsibility to support each other. Moreover, family members are willing to sacrifice personal needs and experience the taking over of accountability for actions as a natural process. This interdependence among family members and non-family members also establishes a core for the high levels of commitment that create a sense of belonging and the clarifying of the identity of the family as a group.

Cognitive Dimension

The cognitive dimension of social capital has been appraised in the company through their shared vision, shared language, shared values and shared narratives. Clear ideas about the future path of the company have been detected, which is related to the high degree of closure within the family and the company. Having values and norms clearly defined and by acting upon them in terms of fair treatments of customers, employees and suppliers, the company distinguishes itself from others and strengthen its unique way of taking actions. Moreover, the company has a vastly exclusive way of communicating, which is mainly described as open communication fostered through mutual interaction. The final condition for this dimension is time and stability. Ensuring a vision of continuity and maintaining these social norms and values of the company assists the development of shared values that can easily be transferred through generations and in general the organization. Since the company and especially the owner-family focuses on constantly pointing out their reputation, tradition and history, which is done mainly through storytelling, the company develops a strong family pride. Again, the time and stability condition also helps with the maintaining of history features and the achievements of the company also are remained as stories, helping to enlarge the cognitive dimension of social capital.

The subsequent table summarizes the previously drawn relations between the social capital (structural, relational and cognitive dimension) and the four family influenced conditions time/stability, interdependence, interaction and closure. From this summary it can clearly be concluded that the family has a great impact on the building of social capital since it grants conditions that foster the development of a unique social capital.

	Structural Dimension	Relational Dimension	Cognitive Dimension
<b>Time/Stability</b>	<ul style="list-style-type: none"> <li>Maintenance of norms and values</li> <li>Continuously building social norms and trust</li> </ul>	<ul style="list-style-type: none"> <li>Continuously building social norms and trust</li> </ul>	<ul style="list-style-type: none"> <li>Maintenance of norms and values</li> <li>Reputation, tradition,</li> </ul>
<b>Interdependence</b>		<ul style="list-style-type: none"> <li>Sacrificing</li> <li>Obligation</li> <li>Solidarity</li> </ul>	
<b>Interaction</b>	<ul style="list-style-type: none"> <li>Mutual interaction</li> <li>Exchange and sharing of information</li> </ul>	<ul style="list-style-type: none"> <li>Mutual interaction</li> </ul>	<ul style="list-style-type: none"> <li>Mutual interaction</li> </ul>
<b>Closure</b>	<ul style="list-style-type: none"> <li>Family closure</li> <li>Company closure</li> </ul>		<ul style="list-style-type: none"> <li>Company closure</li> <li>Family closure</li> </ul>

Table 4: Relation between social capital and family-influenced conditions

**5.5 Entrepreneurial orientation**

The next section will focus on the analysis of Coronilla’s specific entrepreneurial mindsets and attitudes determining their performance in terms innovation, strategic renewal and venturing efforts (Nordqvist, Zellweger, & Habbershon, 2009). The two dimensions, which are focus of this study, will be examined in depth in order to further on trace the connections with the previously analyzed resource, social capital.

*“This is not a way of thinking; it is a way of living. The children have been raised seeing their parents build this company; they have always been close to the company so it is not difficult to transfer these ideas. When children see an entrepreneurial parent, they imitate this attitude and moreover, they take part of it and accompany it.” (Wille, 2009)*

### 5.5.1 Innovativeness

As previously described in the literature review, innovativeness constitutes the measure of the firm’s propensity to engage and support new ideas, experimentation, and creative process. Moreover, the end result of this commitment to innovation can be represented by new products, services, or technological process. Coronilla has a history where several novel changes have taken place. Starting from the start up that represents an innovative step itself, and followed by a number of strategic decisions that imply new markets, new products and better ways to do things; Coronilla is facing today the challenge of maintaining an innovative attitude, pointed out by Nordqvist et al. (2009) as crucial when it comes to sustaining the business viability in a competitive environment.

From the beginning, it was “Don Guillermo’s” necessity of moving to Cochabamba and starting over what triggered the set up of Coronilla’s journey as a new company. As a pasta-manufacturing company Coronilla experienced a stable period of growth during its early years. However, as soon as the market conditions started to change and started pushing the margins towards the edge, Coronilla, triggered by an upcoming deterioration that was already on its way started to strategically point its efforts towards new ways of surviving. Martha, the CEO, recalls the acquisition of the mill and start of this new venture in 1990 by saying, *“My brother had the idea that if the pasta-manufacturing business was no longer profitable, by taking another part of the chain value eventually the business could become profitable again. Actually, the idea was originally from my father, but it was my brother, as a CEO, who developed it and translated it into reality”.*

When analyzing Coronilla’s innovative trend it is the restructuring process that took place from 1996 to 1998 what draws the attention of everyone involved in the project. Coronilla was facing a turbulent period where the crisis was becoming more evident, not only in the financial sense but also for the family.

*“After the financial crisis Coronilla had to face in the mid 90s, there was a decision and desire of change. Then is when Martha steps in with an entire new project, based in a complete reengineering of the organization’s production and business model. From my point of view this was a very brave decision; it implied getting rid of the whole tradition and way of working they have had for so many years.” (Navarro, 2009)*

So the subsequent years the company experience an innovation wave filled with new product development, and implementation of new processes, both operationally (because of the change in the variety of grains that was being developed) and commercially (because of the new markets that were being targeted). Moreover, the new philosophy of doing business, the embedded values, and the new course Coronilla was heading to, according to the CEO were the outcome of the family’s commitment to keep the firm going. *“The family values give great support when it comes to take a new initiative or start a new project” (Wille, 2009).*

*“When we decided that Coronilla could not keep producing regular wheat pasta, together with the philosophy change, we created a working team of 40 people to start working on new products from Andean grains. We got the entire personnel to brainstorm about what we could do. Many ideas (i.e. snacks) were ideas originated from the lowest personnel. We sent people to Oruro to find out how the quinoa was being processed, people to Copacabana to see the manufacturing process so they could see and learn how could we industrialize the quinoa. Once we had a big pool of ideas, we started working in new product development. For instance, in the area of salted snacks, all the women working at Coronilla were*

*given enough freedom to be creative and come up with new flavors and combinations. The participation in this process was very intensive; everyone was part of the process and we even created a plan of incentives in order to reward the person who came up with the idea if the product was accepted in any of our export markets.” (Wille, 2009)*

Martha points out the importance of being entrepreneurial and innovative as players of this eco-manufacturing industry. *“It allows us to be alert to the market changes, to identify the new needs and trends, and to develop the right products to match these opportunities . . . If we were not entrepreneurial we would probably not dare to take new actions, and we would be left behind” (Wille, 2009).* This quote shows a market-oriented source of opportunities. Moreover, this customer focus is also present in Coronilla's current operations and deals. The Commercial Director cites an example of a new project that is being developed to supply the North American market where the customer went all the way to Bolivia to take part in the product development process. Moreover, he highlights the fact that being a family-owned company enhances the possibility of closer collaboration within a trustworthy environment.

Coronilla's commitment to innovation is also reflected in the capitalization process they faced in the year 2002. Martha emphasizes that convincing the family to open up the ownership package was not an easy task. Furthermore, the non-family member and Commercial Director recognizes the willingness of the family to unlock in terms of ownership in order to facilitate the access to external capital, and thus, afford to act more innovatively, *“a new product does not only require new ideas, but also requires new packing, market intelligence, advertising, travelling to international fairs, etc” (Navarro, 2009).*

*“I had the idea of capitalizing the firm in order to obtain external capital. Since 8 to 10 years ago banks did not lend money to fund ideas, we had to look for another alternative. This implied a huge sacrifice for the family because it was required to open the family-owned shares and give up a part of the company (45%) for a relatively low sum of money in exchange of a future plan of stock's buyback. Currently we have bought back the shares and again Coronilla is a 100% family-owned exporter working with fair trade and organic production in twelve different markets.” (Wille, 2009)*

The fact that Coronilla's innovative activity gets loosen once a certain level of stability is reached, is something that is acknowledged by them and that has started to be faced.

*“The last years since the crisis, Coronilla have not been very innovative and did not take many initiatives to come up with new ideas, inventions, strategies or products. Since the crisis the company kind of matured.” (Pelaez D. , 2009)*

However, this awareness has brought them to take actions about it and for example, create a new department dedicated exclusively to the development of new products and ideas.

*“This department meets regularly to discuss new ideas and evaluate what can be improved in the company. There is definitely a need to become more innovative again.” (Pelaez D. , 2009)*

Moreover, as stated in the social capital analysis, one of the reasons of involving the third generation in the shareholders meeting is to *“get them involved and helping with the new energy and capabilities, that characterize younger generations, to take better decisions” (Wille, 2009).* In that sense, Ximena refers to these sessions as the arena where *“new ideas and projects are argued”.* Finally, Jorge, the Commercial Director highlights the importance of considering the product's life cycle and the impact of lack of capital when it comes to afford large-scale innovations. He affirms, *“we have many ideas, but right now we can only afford to innovate in smaller scale with little variations. . . we have to look for new alternatives that allow to also generating enough funds to allow the implementation of new projects” (Navarro, 2009).*

### 5.5.2 Proactiveness

To build the link between the social capital resource of the family business and the entrepreneurial orientation regarding proactiveness, the following section will first analyze the data based on the definition of the proactiveness dimension of the family businesses' entrepreneurial orientation. As defined previously, proactiveness refers to the *"processes aimed at anticipating and acting on future needs by seeking new opportunities which may or may not be related to the present line of operations, introduction of new products and brands ahead of competition, strategically eliminating operations which are the mature or declining stages of life cycle"* (Lumpkin & Dess, 1996). Considering this definition, the empirical data has been analyzed searching for incidents that describe proactive actions of the company, and family or individuals in terms of pursuing opportunities, developing new products, entering new markets, following new strategies, setting trends or eliminating mature products. Coronilla had to take many actions throughout its history since its foundation due to critical incidents that forced the company to face change. In 1990, when the first critical time of the company took place, Martha said that

*"My brother had the idea that if the pasta-manufacturing business was no longer profitable, by taking another part of the chain value eventually it could become profitable again. Thus, we all shareholders agreed on this idea, and we thought that it was a good idea to buy a grain mill..."* (Wille, 2009)

The proactive action taken at that time resulted in the implementation of a vertical integration strategy. By taking this step, the company demonstrated that it was able to implement new strategies applying a forward-looking strategy. They acknowledged the fact that they would not have been able to stay profitable on a long-term if they didn't embrace change.

The next crisis, the company had to face was in 1997, when profits went down and the company has almost been bankrupt followed by another crisis in 2002.

*"In 1997 -1998, the philosophy change, 2-3 years of product development, new processes, research on new markets. We developed the Andean pasta, entered the organic market until year 2001 when a strong economic crisis started and we decided to become a public corporation."* (Wille, 2009)

This statement illustrates the proactive attitude of the company through emphasizing the entering of a new market and the new product development in 1997. This represented a big change for the company showing its entrepreneurial orientation towards constantly creating new products and strategies to stay competitive. Instead of being proactive and being aware of the future risks, the company could have kept applying the old strategy and sticking to their products. Yet, this could have led to stagnation and most likely to failure. Besides, the CEO also mentions the capitalization in 2002 as a big change process of opening the company up for external capital and selling, almost half of the shares to an external investor. Although this meant to lose control and implied the risk of not being able to buy back the shares, and eventually losing everything if the investment is not resulting in any economic profits, the company pursued the opportunity.

The company needed an entire turnaround. Martha said *"This was a very important change because it offered not only an economical injection but fostered the company's professionalization process- economic and administrative process became transparent and professional"*. This forward-looking perspective is associated with the entrepreneurial orientation dimension of proactiveness as discussed by Lumpkin (1996), hence indicating that the company can be identified as a company taking proactive actions through a forward-thinking attitude.

According to Lumpkin (1996) proactiveness is also concerned with taking the initiative by anticipating and pursuing new opportunities and with recognizing emerging markets that should be pursued. *"The thing is that the business as it was planned had no possibilities to survive, we were a company that used to buy wheat and mill it to manufacture pasta and sell it in the local market, but Coronilla could not compete in this sector. So we had to look for a different alternative that offered something 'extra' to the business, add a new ideal, a new philosophy to make it worth it to keep going."* (Wille, 2009). This quote describes



the situation in 1997, when the company was facing a dramatic economic crisis. Instead of going out of business, Martha recognized an opportunity for the company and started a turnaround strategy through differentiating itself with a new target market and an innovative product. Coronilla has anticipated and recognized that there is a profitable niche market, which they can enter. After Martha took over in 1997, the company started to produce organic gluten free products using Andean grains and focused on the international market instead of the national market.

*“Then is when Martha steps in with an entire new project, based in a reengineering of production and business model. This was a very brave decision from my point of view, because it implied getting rid of the traditional production of pasta and way of working they have had for so many years.”* (Navarro, 2009)

This statement of the Commercial Director also emphasizes how radical the change was during the time of the crisis when Martha took over the company. It was a high-risk decision to enter with new products into a new market where the company had hardly any competencies. This shows the CEO's entrepreneurial orientation to pursue any opportunity that could support the business to survive even though it is not ensured that it will lead to success. Since Martha took over, the company increasingly became proactive and she acted as a role model for behaving proactively. As she says during the interview: *“We are absolutely audacious and we are always leading the market. We like being innovative and establish trends. Normally, the competition follows our steps.”* (Wille, 2009).

As discussed in the literature review, proactiveness is also concerned with the *actions taken by the firm to create a new entry not only as a response, but also in advance, to arising opportunities*. Coronilla has taken steps to invest in product development and come up with ideas on how to improve the quality of the product by educating their personnel and investing in research and development. As Martha describes, *“When we decided that Coronilla could not keep producing regular wheat pasta (we would have gone bankrupt in the next 2 years), we created a working team of 40 people, ...we got the entire personnel to brainstorm about what we could do, ...we sent people to Oruro to find out how the quinoa was being processed...”* (Wille, 2009) This process of generating new ideas demonstrates that the company is not satisfied with any solution. It wants to find the best solution and therefore gets as many people of the company involved in the idea generation process showing the eagerness of the company to be ahead of others and being first in the market with new ideas and high quality products.

The proactive attitude is also recognized in the communication and idea generation of the company and its individuals. As Diego, the CFO mentions *“In 2005/06 we gained control again over the company since we bought back the shares that we sold before. Ever since, the growth path can be described as long-term orientation and proactive. We started to plan things ourselves and became more proactive instead of reactive.”* (Pelaez D. , 2009) which shows explicitly that the company is proactive ever since it has a 100% control over the company and Ximena the Head of Logistics says that *“If there is a new idea, or we identify a better way to do something, then the idea gets discussed much faster and once, the main approval has been given the project can start running more rapidly.”* (Pelaez X. , 2009), illustrating that new ideas and solutions are issues that the company fosters and which the company accomplishes through the open communication and openness to change. This is also confirmed by the another statement of Ximena where she mentions: *“This can be seen in the communication channels, if an employee in the factory comes up with a new idea (product or process, client's needs) the steps to get to the CEO or any of the Directors are not many, there is setting of trust when they feel free to come up with new things. I believe that working as a family can be extremely positive when it comes to the decision-making process.”* (Pelaez X. , 2009). Here she also indicates that this entrepreneurial behavior looking for opportunities is also fostered and undertaken by the family itself.

Another issue is that Coronilla is working closely together with its clients to exchange information and improve their products according to the demand. Ximena says that *“We are very*

*proactive and we are always trying to solve our client's problems and innovate the process how this operations take place. Being a family business, we can give a more personalized and individualized service, and create long-term and trust-based relationships.*" (Pelaez X. , 2009). Here she points out the importance of improving and innovating new processes through the personal approach with the customer. Through this, the company will stay aware of changes in the market and evaluating new trends, giving them the possibility to pursue the opportunity on time, and as Ximena also states they *"always try to be as proactive and original as possible; we generally do not pay much attention to what the competence is doing, we try to stay close to our clients and keep our independence from the competition"* (Pelaez X. , 2009).

Yet lately the company has been facing some slowing down in their proactive attitude. Hence, the challenge is to keep the proactive activities and foster an entrepreneurial orientation in the company. As the CFO points out *"The last years since the crisis Coronilla have not been very innovative and did not take many initiatives to come up with new ideas, inventions, strategies or products. Since the crisis the company kind of matured."* (Pelaez D. , 2009). Moreover the CEO says that *"Now, I think I should mention one of the biggest issues in Coronilla is that we have been to slow. We took the right decisions but it took us too long,"* (Wille, 2009) and the problem is also emphasized by the non-family member the Commercial Director as he states *"So far the international strategy has worked fine, however, we are seeing that this market can also collapse due to external crisis, etc. so it is necessary to turn the sight to the internal and regional market. This would imply a lot of changes, different products, different demand and different relationships that need to be established (for example, in Latin America customers are not really into fair trade, and differentiation whereby they will negotiate to lower prices, etc)."* (Navarro, 2009). There appear to be several opportunities in the industry and market that the company should act on but still it has not undertaken any further steps due to its reluctance to change. Therefore, the company has lately been too slow in pushing through decisions and acting on opportunities, which can however be caused by the lack of financial capital, yet as well be a lack of entrepreneurial orientation. Also the Head of Logistics has recognized this problem and says *"I would say that maybe, at some point, we were a bit slow to take decisions, but I think that the problem was not originated on the family but on economic issues."* (Pelaez X. , 2009) However, as Ximena argues here, this decreasing proactive behavior is also due to the lack of financial capital, which is also backed up by Jorge saying *"I think that in this moment we are more in the second option (wait and see) but not because of the lack of ideas, initiatives, or opportunities but we have our hands tied in terms of financial resources"* (Navarro, 2009)

The need to start creating new strategies and products is apparent but not yet pursued by the family in the current stage of the company, meaning that the family might be the constraining factor in terms of acting proactively because they are less willing to take risks since the crisis in 1997 where they almost lost everything. This is also pointed out by the Commercial Director when he talks about investment decisions saying if the family rather constrains or facilitates these decisions he says *"I think it constrain, basically because of a prudent attitude based on the difficult experience Coronilla had to face during the 90s. I think they think, "It is better to stick to what we know, and to what is going well"."* (Navarro, 2009)

Besides this slow acting upon new ideas and the reluctance to change, the products of the company have also reached the mature stage of its life cycle and require innovative and proactive decisions. Jorge says *"An important thing to mention is that many of the products currently manufactured by Coronilla have already reached a mature stage in their life-cycle and event tending to decline (especially snacks). Therefore, we have to look for new alternatives that allow to also generating enough funds to allow the implementation of new projects."* (Navarro, 2009). Coronilla has many opportunities due to its position in the market and its growing company. Hence, the challenge now is to not merely detect these challenges with its attached opportunities but also to proactively act on it and stay open for change within the company, which is demonstrated by the answer of the Head of Logistics concerning the competitiveness and trends in Coronilla's' industry segment *"This more specialized markets are growing, so this creates a great opportunity for Coronilla, and the environmental forces (new consumer trends, etc) are the ones pulling this growth."* (Pelaez X. , 2009).

## 6 Final Discussion and Conclusion

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*The final conclusions outlined in this chapter will be grounded on the findings described in the last section. First, by combining the revised literature and the empirical findings, the relationships between social and the entrepreneurial orientation's dimensions, innovativeness and proactiveness, will be traced. Second, based on how social capital and these relationships influence the firm's performance outcomes, a continuum tracing the road between stagnation and innovation, and passiveness and proactiveness, will be drawn. Then, the final conclusions of this study will be presented within the Transgenerational Entrepreneurship Framework, and finally, some limitations will be presented, together with the implications of this study both for the research and managerial fields.*

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### 6.1 Social capital and innovativeness

The innovativeness dimension defining the entrepreneurial orientation of family firms can be described as the tendency of these firms to engage in and support new ideas, novelty, experimentation, and creative processes (Lumpkin & Dess, 1996). Moreover this engagement may result in new products, services, or technological processes (Lumpkin & Dess, 1996). Coronilla's innovation processes have become more evident during certain periods of its life-cycle. Furthermore, one of the resources, that has remained present along every strategic decision and change that Coronilla has faced, is the firm's social capital. Under the premise that social capital represents a social network of relationships and the sum of actual and potential resources embedded within, available through and derived from it (Salvato & Melin, 2008); it is evident that this relationships influence the resources determining the firm's innovative attitude.

When the Wille family decided that the best way of protecting Coronilla's gross margin was enlarging the productive chain and buying a mill, it was the family cohesion and mutual trust what allowed them to enact and initiate this new venture, "...we all shareholders agreed on this idea, and we thought that it was a good idea to buy a grain mill... So the idea was originally from my father, but it was my brother, as a CEO, who developed and translated it into reality" (Wille, 2009). Moreover, during the reengineering process initiated in 1996, it was the social capital's relational dimension, what triggered this eagerness of pushing the company forward, and avoiding bankruptcy. Martha's sense of responsibility and commitment to the firm, together with a trust-based environment that facilitated the family's open discussion, decision making and cooperation are just some of the relational factors that facilitated this restructuring process which resulted in new products, and processes, aiming to target totally new markets. In addition, the change itself was embedded with a new philosophy that, at the same time, was based in a pool of shared values implanted by the founder in the past and adopted by the firm as deep premises.

*"The family values give great support when it comes to take a new initiative or start a new project."*  
(Wille, 2009)

When it comes to the influence of the structural dimension of social capital on innovativeness it is important to refer to the strong and long-term ties built both externally and throughout the organization. Pearson, Carr, and Shaw (2008), refer to this structural dimension as the family-influenced social interactions that include the patterns and strength of ties, among members of a collective. After the firm's turnaround towards the organic and gluten-free segment, Coronilla faced the challenge of building new networks and establish new connections internationally. However, the fact that Germany, the only country with which they had some previous connections due to "Don Guillermo's" roots, was the first country they exported to illustrates the influence of networks when it comes to entering new markets. On the other hand, one of the main findings of the present study is that in the family firm's field, where long-term focus is commonly associated with one of the most advantageous characteristics of this form of business (Habbershon & Williams, 1999), long-standing relationships with clients can also create so strong links that even some doors to innovation are closed due to the strong attachment to previous

ways of doing business or previous links that at some point gave good results and created strong connections of structural social capital.

*“For example, due to long-term relationships, it may be the case that the firm will continue selling products to its first customer even if it is no longer a significant buyer for Coronilla or, simply because of respect to this market since it was the first market welcoming the product. I believe that it is time to also pay attention to new markets and new horizons that are arising. These types of decisions are sometimes negatively influenced by the family’s strong attachment and loyalty.” (Navarro, 2009).*

As mentioned on the analysis of innovativeness when analyzing the firm’s entrepreneurial orientation in the previous chapter, Coronilla’s awareness of having reached a more mature stage characterized by a slowdown of the innovation activity has led them to react to it by taking two actions about it. First, the creation of the innovation department, and then, the involvement of the third generation as a source of fresh and new ideas about where to lead the business, represents a natural way of enhancing the creation of social capital. Unconsciously, the firm’s strategic decisions are developing spaces to increase connectivity, communication, flow of information where under a clear shared vision and embedded values better ways of doing things can be identified, and new ideas can be drawn. In this sense, one aspect that cannot be left unnoticed is that excessive internal trust can also lead to less innovative activity. As mentioned by the Commercial Director, sometimes ideas are adopted by the personnel just because *“they trust in the family who runs the firm”* (Navarro, 2009). Moreover, this decreased critical thinking can also result in hindered creativity because of this use to a one-direction way of thinking where it is easier to accept and adopt new ideas rather than actively contribute with the innovative process.

Another important relationship between social capital and innovativeness is represented through a more indirect path, yet still very relevant. As the main cited reason constraining innovations was financial capital, the following quote reflects the way social capital’s development can influence the recombination of another resource such as financial capital, and thus provide the means to act more innovatively and pursue the new projects and ideas that are being constrained by the lack of capital.

*“...last week I was contacted by the Bolivian stock Exchange suggesting us to issue “pagares” for funding saying that there were people willing to invest in Coronilla, because they considered it a family enterprise with a lot of tradition, a very reliable company. Because of experiences like this I considerer that the family element is crucial. The family is seen as reliable and with long-run perspective from the point of view of the client, suppliers and now even funding institutions.” (Wille, 2009)*

The following figure summarizes the underlying connections between social capital and innovativeness. Moreover, based on the ‘familiness’ analysis, it illustrates the nature of these connections as constraining or facilitating factors that are influencing the firm’s movement towards viability through the development of an environment that fosters innovation and avoids stagnation.

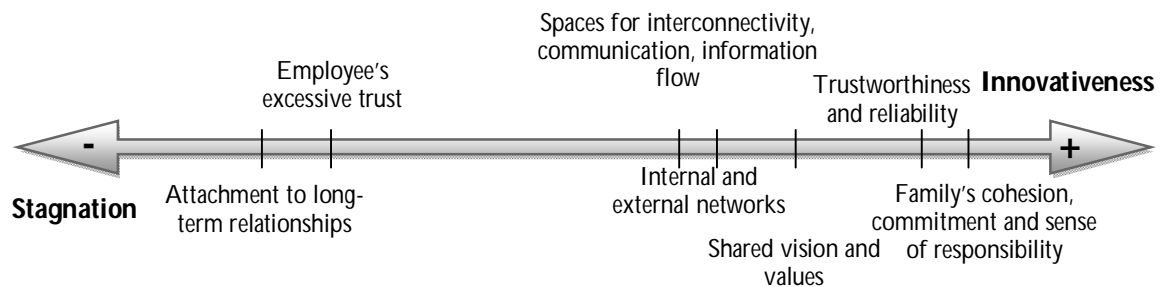


Figure 12: Social capital and innovativeness

## 6.2 Social capital and proactiveness

The proactiveness of a company is expressed in taking initiative by anticipating and pursuing new opportunities and by participating in emerging markets (Lumpkin & Dess, 1996). Moreover, Lumpkin and Dess (1996) stress the matter that proactive firms should be considering future problems, needs and changes and act accordingly and take necessary actions. This focus of future events occurring has been identified at Coronilla throughout their historical path. Starting when having to face change due to a tremendous decrease in the profit margins, Coronilla has been acting proactively by implementing a new strategy accomplishing the vertical integration through acquiring the grain mill. Secondly, the restructuring process in 1997 when the new CEO Martha took over demonstrated a proactive attitude by entering a new market with a new product and simultaneously changing the strategic direction of the company to become more internationally focused. Moreover, the capitalization in 2002 has prevented the company to stagnate in the coming years, which has been anticipated by the CEO and the opportunity of external financing has been taken by Martha to be able to react actively in the future concerning the growth strategy of the company. Yet, lately the company has not been able to accomplish new projects due to the constrain of lacking financial capital. However, this has not been pointed out as the only reason for being less proactive. It has been indicated that the family is still recovering from the crisis in 1997 where the company almost got bankrupt, which caused a less risk taking attitude and more wait and see approach constraining the proactive attitude.

Considering the social capital and its three dimensions, structural, relational and cognitive, these proactive incidents and actions can be related to the apparent social capital of Coronilla. Most influential are the structural and cognitive dimension of social capital on the proactiveness of Coronilla, yet also the relational has an impact to some extent. As said by the CEO Martha, *„we are absolutely audacious and we are always leading the market. We like being innovative and establish trends. Normally, the competition follows our steps.“* (Wille, 2009). Here, the way of expressing the goals and vision of the company is very explicit showing that a strong-shared vision and values are apparent in the company, which derive from the heritage of Don Guillermo who is the founder of Coronilla. This inheriting of the shared vision and values is unique and particular about family firms, since the strong family culture has a great impact on the development of a vision and values. The forward-looking thinking to create wealth through change expressed and implied by the CEO is also confirmed by the chairman of the board as he says talking about the crisis in the 90s: *“Nobody could have been blamed for the failure and it would not have helped us if we would have kept asking who is to blame. This is what happens in other businesses, instead of managing the crisis they keep on searching for that one person to blame for the crisis and punish that person. At Coronilla we all pushed on one string. We all wanted to move on. Also the employees.“* (Wille G., 2009). This emphasizes the forward-looking perspective and the quote of the CEO also describes the values that have already been implemented by the founder and which have been transferred through generations and were kept until nowadays. Once more, the family can be identified as the main source for this facilitating feature since families emphasize the long-term focus and are more likely to keep their values over a long period. This cognitive social capital has been the dynamic strength that implied a proactive behavior among the organization.

Additionally, the relational dimension has been significant for several decisions taken throughout the history of Coronilla. Martha said *“we developed the Andean pasta, entered the organic market until year 2000 when a strong economic crisis started and we decided to become a public corporation.“* (Wille, 2009), this has been a very proactive way since the company anticipated the need of change, developed a new product, entered a new market and sold parts of its shares to an external investor. This has been accepted among the company because the people trusted in Martha's ideas and believed that she would be able to implement these changes successfully. This trust environment, as well as the previously mentioned long-term focus and value transfer, also derives from the family context in the firm since the family's wealth depends greatly on the success of the company, family

members are highly committed. Moreover, the high commitment assisted the change implementation because everybody of the company is dedicated and identifies with the company, which facilitates acting proactively and taking risky decisions because the company and family will support these decisions. The low hierarchy and open communication in family firms result into a higher dedication and identification due to it being a family firm.. Hence, the relational social capital can support proactiveness and also trigger proactive decisions.

Being proactive obliges that decisions are made quickly and opportunities are pursued ahead of others in the market. The structural social capital of Coronilla ensures these quick decisions and pursuing of opportunities through a flat structure and open communication. Ximena illustrates this explicitly when saying "...if an employee in the factory comes up with a new idea (product or process, client's needs) the steps to get to the CEO or any of the Directors are not many..." (Pelaez, 2009). Hence, new ideas that are generated will be assessed quickly and can be implemented within a short period of time due to the constant interaction of members of the organization and a flat hierarchical structure that facilitates the communication.

Nevertheless, the company has been less proactively throughout the last years and increasingly since the crisis when the new CEO took over. Yet since the family's wealth depends greatly on the success of the company, the family's goal is naturally to keep the company profitable and each of the family members is highly committed to ensure the success. One argument has been the lacking financial capital. However, this eminent focus and commitment can also cause a less proactive attitude. As the Commercial Director highlights the concern that family members developed a "...prudent attitude based on the difficult experience Coronilla had to face during the 90s. I think they think, 'It is better to stick to what we know, and to what is going well'". (Navarro, 2009). Consequently, decisions that might seem more risky are not always considered because of the family's interdependency. Moreover, the structural social capital can also influence the employees' behavior negatively, as too rigid relationships and too much trust among the organization can have the effect of less reflection of actions taken in the company and, thus a more passive attitude regarding change.

To conclude, most of the elements of the dimensions of social capital have affected the proactiveness of Coronilla positively. Yet, too strong relationships, interdependencies and also trust can cause a rather passive attitude, where the company stagnates in its changing process and matures instead of growing through change implementation.

The following figure summarizes the underlying connections between social capital and proactiveness. Moreover, based on the 'familiness' analysis, it illustrates the nature of these connections as constraining or facilitating factors that are influencing the firm's movement towards a looking-forward perspective through the development of an environment that fosters embraces change and avoids passiveness.

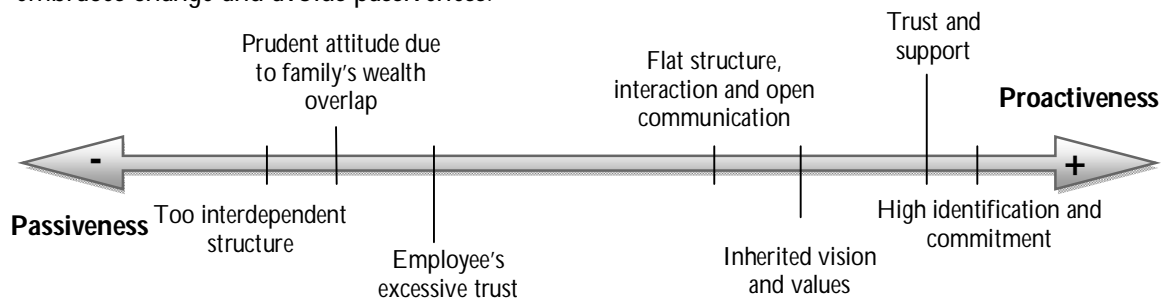


Figure 13: Social capital and proactiveness

### 6.3 Final conclusions

According to Pearson, Carr, and Shaw (2008) the social development conditions in a family firm can generate specific social capital resources and capabilities, leading to a competitive advantage and finally causing family firm wealth and value creation, highlighting the importance of social capital for family firms. This significant role of social capital in family firms and its impact on the entrepreneurial orientation, regarding innovativeness and proactiveness, was detected and proven in this case study, as well as the positive influence on the firm's performance and the creation of transgenerational potential. Throughout the entire history of Coronilla, it has been apparent that social capital has been a main source influencing the survival of the firm positively. This reveals the importance of emphasizing this research field and the need to provide a better understanding of social capital and how it is embedded and linked to different features of the particular family firm context.

As stated before, this case study confirms the influence of social capital on the entrepreneurial orientation, performance, and transgenerational potential, and reveals the facilitating and constraining features that affected the entrepreneurial orientation of the family firm. These constraining and facilitating features, derived from the analysis of the empirical data, are illustrated in the subsequent table.

<b>Social Capital – Constraints and Facilitators</b>	
<b>Constraints</b>	<b>Facilitators</b>
Prudent attitude due to family's wealth overlap	Flat structure, interaction and open communication
Too interdependent structure	Inherited vision and values
Employee's excessive trust	Trust and support
Attachment to long-term relationships	High identification and commitment
	Internal and external networks
	Spaces for interconnectivity, communication, information flow
	Shared vision and values
	Family's cohesion, commitment and sense of responsibility
	Trustworthiness and reliability

**Table 5: Summary of social capital factors**

Since the purpose of this study had been to enhance the understanding on transgenerational entrepreneurship, the identification of these constraining and facilitating factors was necessary to explain the complex relationships and cause and effects.

The main constraints evident in the family firm are a prudent attitude of the family, an interdependent structure, and the employee's excessive trust and attachment to long-term relationships. These led to a more passive and stagnant entrepreneurial behavior in terms of innovativeness and proactiveness. Risky decisions were less considered due to the dependency between the family and the firm's wealth. This attitude caused a rather conservative behavior that constrained proactiveness, resulting in a less forward-looking and flexible strategy. Moreover, the employee's excessive trust hindered reflective and critical thinking regarding innovation, and the attachment to long-term relationships produced a less active new market focus.

Nevertheless, most of the factors of social capital were detected as facilitating forces fostering the two entrepreneurial dimensions, innovativeness and proactiveness. With regard to innovativeness, the social capital was the main facilitator for the creation of new products, the development of inventive processes and structures, as well as for the entering to new markets. In particular, the internal and external networks were identified as sources of opportunities for entering new markets. Moreover, shared vision and values, and trustworthiness and reliability, are factors that ease communication within the firm and therefore, enhance the process of new idea generation, and also, simplify the processes through lower hierarchy. Finally, interconnectivity

and good information flow, along with the family's cohesion, commitment and sense of responsibility have opened the opportunity for new structures and innovative actions.

Concerning the proactiveness, social capital facilitated and fostered the long-term focus of the company, encouraged a forward-looking perspective and assisted change through allowing a more flexible and adaptive behavior. The flat structure, constant interaction and open communication enabled flexible and adaptable behavior that facilitated change. Moreover, trust, support and the inherited vision and values created a stable environment maintaining the focus on the long-term strategy. The family's need to follow a forward-looking perspective results from the family's wealth dependency on the firm's success and the high identification and commitment its members.

Summing up, strong positive and negative relationships between the resource social capital and the entrepreneurial orientation of the firm were detected. Moreover, social capital helps the development of entrepreneurial mindsets fostering the entrepreneurial orientation and successively, influences the performance of the family firm. The enhanced entrepreneurial orientation regarding innovativeness and proactiveness improved the entrepreneurial performance through enabling the firm's development of new capabilities and products, the participation in twelve countries, and the implementation of successful strategic renewal processes. Moreover, the financial performance shows positive results in terms of profitability, attainment of new sources of capital, and a notorious increase in the gross margin. Besides, fair trade, a business model that benefits all stakeholders and a positive reputation, based on the respect of values and norms, illustrate the advancement in social performance due to the strong entrepreneurial orientation influenced by the high level of social capital.

To conclude, the family influenced resource, social capital, is essential for the creation of entrepreneurial capabilities and mindsets in a family firm, and enhances the performance in all areas. In the context of the applied transgenerational entrepreneurship framework, social capital can therefore be seen as a facilitator supporting the process that ensures that these mindsets are transferred successfully to the next generation. The focus on a long-term strategy, building a strong vision and values over generations, and the environment of trust facilitate the transfer of these entrepreneurial mindsets and guarantee that the next generation keeps the entrepreneurial orientation within the firm. Staying entrepreneurial in terms of innovativeness and proactiveness ascertains positive performance outcomes and creates wealth across generations. Transgenerational entrepreneurship has been defined by Nordqvist, Zellweger and Habbershon (2009) *"as the processes through which a family uses and develops entrepreneurial mindsets and family influenced capabilities to create new streams of entrepreneurial, financial and social value across generations"*. This case study has helped to illustrate and understand this process of influencing the family firm's entrepreneurial orientation, regarding proactiveness and innovativeness, and the creation of transgenerational potential. This process is illustrated with the help of the Transgenerational Entrepreneurship Framework. Moreover, the Figure 14 summarizes the findings and demonstrates the link between the resource social capital and the firm's entrepreneurial orientation and performance for this particular case. What is more, it helps to illustrate a better understanding about the relationship between family firms and their entrepreneurial behavior.



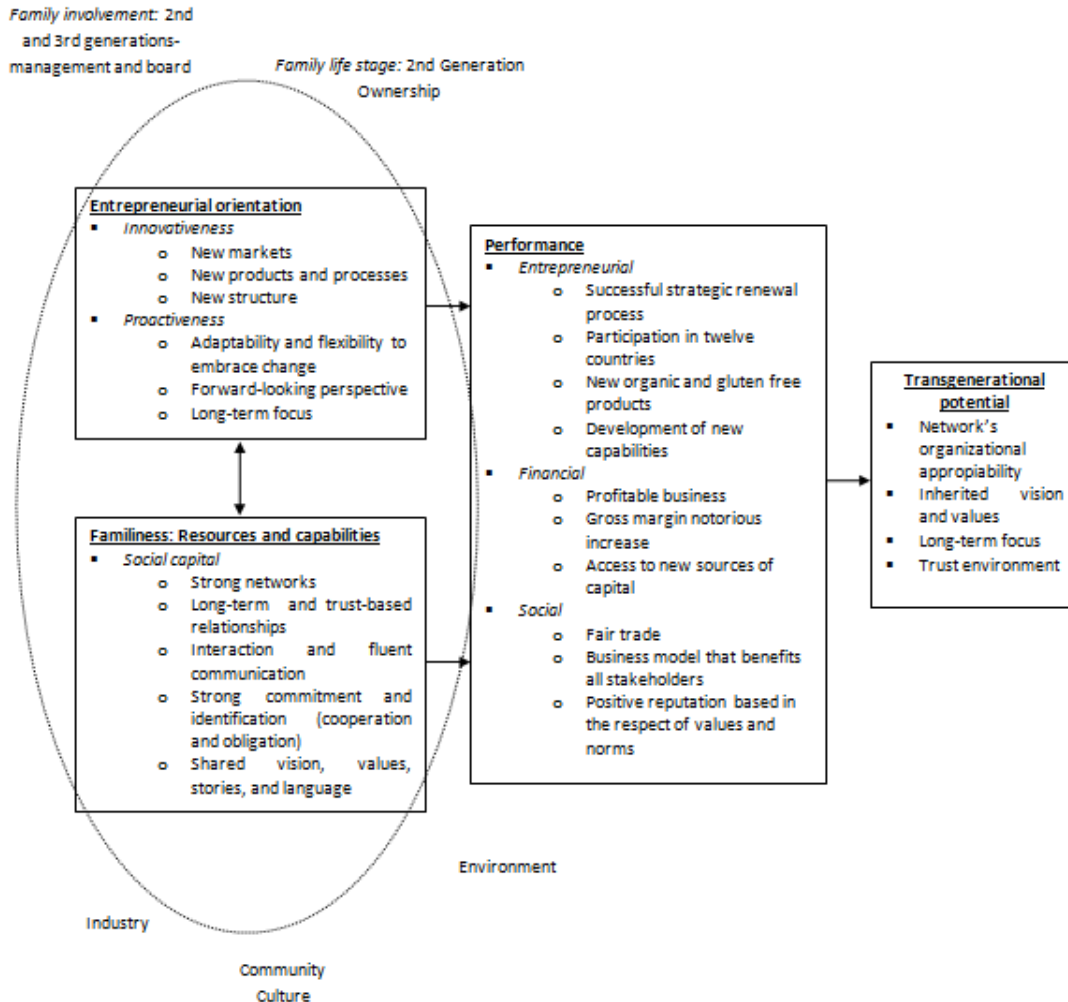


Figure 14: Transgenerational entrepreneurship outcome

## 6.4 Limitations

The scope of this study, presented in the Delimitations section of the Introduction chapter, has set the boundaries delimiting how the research would be conducted. However, after the conclusion of the research process, it is possible to say that this study presents the following limitations. One of the factors that was not considered for the analysis and that may constitute an influential force for the way mindsets and capabilities are transferred across generations, is the context in which firms perform. The cultural, competitive, and environmental forces are some of the features influencing elements such as the firm's way to recombine resources, the family's role in a certain society or country, or the way different firms and industries compete against each other. Consequently, one of the disadvantages of narrowing the study towards the understanding of a specific resource and two entrepreneurial dimensions is that the contextual factor's influence may have been set aside and not been considered to its real significant extent.

Another limitation of this family firms' study, in spite of the initial aim to focus in social capital, innovativeness and proactiveness, is that, in such a dynamic environment, the exclusion of additional factors (resources, capabilities, or entrepreneurial orientation dimensions) that are constantly interacting among each other, becomes an important limitation to truly understand the interactions that are taking place. However, approaching these connections through specific studies represents a positive begin in this process of creating better understanding and reinforcing the existing theoretical frameworks.

## **6.5 Implications**

### **6.5.1 Implications for research**

Now, that the limitations of the findings of this research have been discussed, this section will outline some recommendations for future research in the field of family firms and transgenerational entrepreneurship.

As mentioned in the limitations, the context of family firms has not been considered in the findings of this case study, providing an opportunity and need for future investigation. The company's culture and environment, the competitive forces and other external factors should be the focus of future research. In this sense, links regarding the entrepreneurial mindsets and capabilities of family firms and transferability to the next generation could be identified and studied. Especially the role of the firm in its country or society can have a significant effect on building the family-influenced social capital and consequently, on the entrepreneurial orientation. Therefore, it is suggested that future research is conducted in other geographical areas considering the contextual features to compare the impact of these features on a family firm's social capital and entrepreneurial orientation.

Moreover, other entrepreneurial orientation dimensions like risk-taking, autonomy, or competitive aggressiveness, and the impact of other resources like financial or human capital, have been left out in this case study, asking for further research concerning the interactions of these with social capital. Conducting research considering other dimensions and resources will deepen the understanding and provide better knowledge for family firms on how social capital can be used as a facilitator for transgenerational wealth creation.

Finally, it is recommended to carry out additional in-depth research comparing family firms and non-family firms in this field proving that the family conditions can have a better impact on the development of social capital. Such an in-depth comparative study would contribute to these findings confirming that social capital in family firms is highly influenced by the family causing a competitive advantage and creating value. Consequently, this study's contribution to a better understanding of the family-influenced resource social capital and its impact on the development of entrepreneurial mindsets and capabilities generating transgenerational potential, as listed above opens novel opportunities for future research in this field.

### **6.5.2 Implications for Practitioners**

Besides the previously outlined implications for research, some recommendations for managers working in family firms are given. This study has proven the social capital's importance for the firm's entrepreneurial orientation, performance and transgenerational potential. Hence, the strong ties, big networks and the trust-environment constituting social capital, is something very unique in family firms and can be used to generate a competitive advantage. Thus, managers, either as part of the family or of the business, as non-family members, have to be aware of this especial context and gain access to these networks to build relationships and successfully work at the family firm.

Being aware of the essence of social capital, managers can also use this resource's conditions of long-term focus, strong family culture, and reputation, to build networks for the firm and to strengthen internal and external relationships. By applying this strategy, a manager could enhance and foster the entrepreneurial orientation of the firm and, moreover, contribute to the improvement of the firm's performance. In order to become part of the firm and its culture, the manager needs to be understand the family firm's vision and trust-environment by taking active part in this process. Better relationships within the company, could raise the manager's odds of success and improve his/her performance.

Besides the positive implications deriving from social capital, managers have to consider the drawbacks of such strong ties and long-term relationships. New ideas might be dismissed not by rational reasoning but rather due to the interdependence of the family members with the business, which might cause a conservative behavior in terms of change and implementation of new ideas. Moreover, in family firms with strong social capital, excessive trust might cause less critical and innovative thinking among the company. Therefore, new approaches to address these new initiatives can constitute very valuable results for new strategy implementation. Moreover, the emotional involvement when taking decisions affecting the family's wealth needs to be acknowledged and considered.

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## Appendices

### Appendix 1: Preliminary questionnaire

**Date:** April 27<sup>th</sup>, 2009

**Respondent:** Diego Peláez

**1. Do you consider Coronilla S.A. an entrepreneurial company? Why?**

*\*Entrepreneurial:* Engaged in innovation (new products and markets), risk-taking ventures, competitively aggressive, proactive (first to take new initiatives).

**D. Peláez:** Yes, definitely. Coronilla is a company that was born with a specific aim to fulfill the need of “undifferentiated pasta” in the local and national markets. Today, Coronilla is a company that without having to change its technology, installations or productive matrix, sells 90% of its production to 12 different countries located in 3 different continents of the world. This was achieved by finding a specific niche, the organic market, oriented to people with Celiac Disease. This transformation proves the entrepreneurial capacity of the firm as a response to the abrupt changes experienced on the original market the firm planned to target.

**2. Which family-influenced resources or capabilities do you consider essential for Coronilla’s entrepreneurial behavior?**

*\*Resources and capabilities:* leadership style, organizational structure, governability, organizational culture, social capital, knowledge, etc.

**D. Peláez:** I would say that Coronilla has achieved such a business maturity where the family influence related to the family member’s capabilities does not play a necessarily determinant role. However, Martha Eugenia plays a crucial and significant role through her capabilities. Her leadership style and image play a determinant role influencing the organization member’s performance.

The rest of the elements are synthesized in such a way that they represent an intangible asset of the firm, and in my point of view they exceed the individual capabilities of the family members working at the firm and constitute a perdurable asset for Coronilla.

**3. How would you say that these resources and capabilities influence the firm’s performance? (social, entrepreneurial and financial perspective)**

**D. Peláez:**

- Entrepreneurial – Martha is Coronilla’s entrepreneurial engine. She is the one managing the change and she is the firm’s image, both internally (for the employees) and externally (financial institutions, clients, etc). Thus, her presence is determinant for the firm’s performance.
- Financial – The firm has no financial dependence on the family, it is auto-sustainable so to say. At the same time, the financial management is made following specific procedures and transparent standards upon which the family has no interference.

## Appendix 2: Interview guide

### I. History and Externalities:

**1. Describe the historical development of your business or business group with a focus on the family members' role and involvement.**

*The answer should cover, if relevant, the following issues:*

- a. The entrepreneurial process when the firm was founded – who, how?
- b. Information on the ownership/shareholder succession(s)?
- c. Information on the leadership succession(s)- Chair, CEO, President?
- d. Information on the ownership involvement, i.e. number and constellation of shareholder family members and or branches and changes in this over time?
- e. Information on the number of family members working in the business(es), in leadership/management?
- f. Who were the family member and non-family actors who have been most influential and what roles they played and why it was significant
- g. What resources and capabilities they brought to the organization
- h. Were there any downsides to their leadership – positive leadership characteristics can also have a constraining downside on the organization?

**2. Describe your main industry in terms of competition and how this relates to the development and strategy of the business or business group?**

*The answer should cover, if relevant, the following issues:*

- a. Competition in terms of pace of change, nature of change, technology requirements, capital requirements, consolidating?
- b. How aggressive are the competitors?
- c. The scope and opportunity of your markets – regional, global, growing, declining?
- d. The importance of innovation and change to stay competitive?
- e. Major innovations in the industry over the past 10- 15 years?

**3. Describe how key environmental forces influence the development of the business or business group**

*The answer should cover, if relevant, the following issues:*

- a. Demographic and social trends?
- b. The role of “the green” environment, opportunity or threat for your business?
- c. Character of the political and economic situation at regional and national level?
- d. Key environmental factors that made a difference in what you are today?
- e. Forces that have affected your family and in turn your businesses?

**4. Describe how key regional, national or people group cultural forces that have influenced the development of the business or business group**

*The answer should cover, if relevant, the following issues:*

- a. The role of national and regional culture for the development of the business?
- b. The role of religion and faith for the development of the business?
- c. The role of ethnicity for the development of the business?
- d. The national view of connection to the global society?
- e. The infrastructure that supports or constrains business growth and or entrepreneurial development?
- f. Taxation and other governmental influences on business?

**5. Describe how your family “life stage” has influenced the ownership and/or management involvement and development of the business or business group?**

*The answer should cover, if relevant, the following issues:*

- a. Did the governance just follow the life stage: founder, siblings, cousins?



- b. How intuitive/informal vs. intentional/strategic managing the family life stages and development:
  - c. How aware the business managers were of the family's role in the development of the family ownership group through generations?
  - d. What steps were taken to continue positive family influences and to address negative family influences on the firm?
  - e. Possible competitive advantages or constraints of the family's ownership and/or management at different life stages?
- 6. Describe the major *strategic and/or entrepreneurial events and initiatives* during your history that have made you what you are today – think in terms of 20, 15, 10, and 5 year blocks.**
- The answer should cover, if relevant, the following issues:*
- a. Key people and strategic events that have made a difference in what you are today?
  - b. Key innovations, new ventures, new markets or renewal activities that have made a difference in what you are today?
  - c. How would you describe the firm's growth path (i.e. evolutionary, accidental, intentional, aggressive, entrepreneurial, strategic, plodding, steady)?

### ***Entrepreneurial Orientation***

- 7. Would you describe the *owner-family* as entrepreneurial? Why or why not?**
- The answer should cover, if relevant, the following issues:*
- a. The main attributes that you think makes the family entrepreneurial?
  - b. The main attributes that you think are lacking for it to be entrepreneurial?
  - c. How the family ownership is a resource for entrepreneurship?
  - d. How it has changed over time?
  - e. Is continuity in and of itself transgenerational/entrepreneurial (i.e. existing for a long period of time)?
- 8. Would you describe the *business unit and practices* you are involved in as entrepreneurial? Why or why not?**
- The answer should cover, if relevant, the following issues:*
- a. The main attributes that you think makes the firm entrepreneurial?
  - b. The main attributes that you think are lacking for it to be entrepreneurial
  - c. The entrepreneurial capabilities of top leaders/managers in the firm?
  - d. How the family influence or involvement is a resource for entrepreneurship?
  - e. How has it changed over time?
- 9. Describe your family business or group's *capabilities to take new actions/initiatives* (i.e. to introduce new product, new service, new processes, renewal actions, or opening new markets and launch new ventures).**
- The answer should cover, if relevant, the following issues:*
- a. Commitment and support for new ideas, novelty, experimentation, and creative processes that may result in new initiatives?
  - b. If there is a specific process for identifying new opportunities and converting them into new ventures?
  - c. If the firm dedicate some budget or internal corporate venturing capital for financing new ventures from the first phases (market research, business plans)?
  - d. If enough products/services have been launched over the last five years?
- 10. Do you generally take new initiatives/strategic actions *ahead of your competitors* proactively or do you prefer to "wait and see" and or adopt "the new" later (e.g. introduce new product, new service, new processes, renewal actions, or opening new markets and launch new ventures)?**

*The answer should cover, if relevant, the following issues:*

- a. If this (the answer) facilitates or hinders further growth and or the accomplishment of vision and goals?
- b. How and why the family influence and or involvement impact this posture?
- c. Are there resources and capabilities that you have or lack that makes this posture/approach your chosen strategy?

**11. Do you generally take new initiatives/strategic actions and invest where the *outcome is highly uncertain*, or do you prefer to invest where less resource is at stake and you *know fairly well the result* (e.g. introduce new product, new service, new processes, renewal actions, or opening new markets and launch new ventures)?**

*The answer should cover, if relevant, the following issues:*

- a. If this (the answer) facilitates or hinders further growth and or the accomplishment of vision and goals?
- b. How and why the family influence and or involvement impact this posture?
- c. Are there resources and capabilities that you have or lack that makes this posture/approach your chosen strategy?

**12. To what extent would you describe the organization as *innovative and generating new ideas, experimentation and creative processes* that may or may not result in new initiatives/strategic actions (e.g. introduce new product, new service, new processes, renewal actions, or opening new markets and launch new ventures)?**

*The answer should cover, if relevant, the following issues:*

- a. If this (the answer) facilitates or hinders further growth and or the accomplishment of vision and goals?
- b. How and why the family influence and or involvement impacts this posture?
- c. Are there resources and capabilities that you have or lack that makes this posture/approach your chosen strategy?

**13. How is it possible to *maintain an entrepreneurial spirit* as the business or business group passes through generations within the owner-family?**

*The answer should cover, if relevant, the following issues:*

- a. The most important steps/initiatives taken to keep the entrepreneurial spirit across generations, or that should be taken
- b. Biggest threats to keep the entrepreneurial spirit across generations
- c. Description of the entrepreneurial commitments and capabilities of the next generation
- d. Formal and informal methods in use to develop next generation's entrepreneurial capacity
- e. How you would judge the entrepreneurial commitments and capabilities of the next generation at the current time

### ***Familiness Resource Pools***

#### *Networks*

**14. Describe how external *networks and personal connections* play a role in the development of your business and or for generating entrepreneurial opportunities.**

*The answer should cover, if relevant, the following issues:*

- a. Are there certain people/businesses that give you opportunities, funding to grow and develop entrepreneurial opportunities?
- b. How do you find opportunity – is it through your family/community network?
- c. Who holds these relationships, i.e. individuals, branches, senior, successors?
- d. How connected are these networks to the family vs. non-family leaders?
- e. Are the networks transferable, i.e. if the company were sold would these networks disappear or could those who bought the business continue to use them?

- 15. What role does the *family's history, reputation and goodwill* play in creating and using the networks and connections for development or generating entrepreneurial opportunity?**
- What examples do you have of people doing deals/business with you because of your family's legacy and or reputation?
  - How is your strategy based upon or developed around your family's reputation and or brand?
  - How does your family maintain/nurture the reputation and goodwill to ensure it is enduring part of your strategy?
  - Is it tied to a particular family member...can it be passed on to the next generation?
- 16. Describe how particular family members (historically and today) play a role in initiating, maintaining and or exploiting opportunities in the networks.**
- Who owns the relationships in the network?
  - Is there any intentional effort to nurture them...and or pass them on?
  - Are their ways in which these people constrain new opportunity seeking/exploiting?

#### *Relationships*

- 17. How would you describe the *relationships between family members* and the impact on the development of your business or business group?**
- The answer should cover, if relevant, the following issues:*
- Are they an important resource for the business, advantage, entrepreneurial development?
  - The effectiveness of the communication...does it enhance or constrain business practices?
  - Degree of conflict and harmony?
  - Feelings of safety and the allowance for people to fail?
  - Differences in the relationships between active and non-active family members, generations, and core families?
  - Is there a commitment from the next generation to unity and to take over the business?
- 18. How would you describe the relationships *between family members and non-family employees that have an impact on the development of your business?***
- The answer should cover, if relevant, the following issues:*
- Are they an effective team?
  - Do you need to bring in more non-family leaders?
  - Do the family relationships keep you from bringing in new leaders, or enhance the attraction of new leaders?
  - Loyalty of non-family leaders and relation to advantage?

- 19. Describe how your family relationships *enhance or constrain your ability to act like entrepreneurs.***
- Relationships and decision making around capturing opportunity?
  - Unity and relational agreement around growth and what new opportunities to pursue?
  - Next generation unity and entrepreneurship?

#### *Entrepreneurial Performance*

- 20. What are the *family's goals* for the future as you understand them?**
- The answer should cover, if relevant, the following issues:*
- How the family defines and measures success as you understand it (in monetary and/or non monetary terms)?
  - The owner-family's five year goals and how they are prioritized?

- c. How the family understands/prioritizes their performance measures?
- d. How the family's goals are determined?
- e. How the owner-family enhances or constrains the achieving of these goals?
- f. The biggest threat to meeting these goals?

**21. What are the most *important entrepreneurial outcomes* to the ownership and management of the business or group (i.e. traditional entrepreneurial activities: new products, new businesses, innovations, new business models, change activities)?**

- a. Describe the number of entrepreneurial initiatives over the last three years (i.e. specific innovations, new products, new markets, renewal initiatives, new businesses)?
- b. How has the workforce (number of employees) evolved over the last three years (increase / decrease)?
- c. How would you describe your market share/position in the market over the last three year in relation to your competitors (increase / decrease)?
- d. What are the expenses for research and development as a percent of total sales and how have they evolved during the last 3 years?

**22. What are the most *important financial goals outcomes* to the ownership and management of the business or group (i.e. traditional financial measures)?**

- a. What is the gross profit of your firm (in % of total sales) and how has this evolved over the last three years?
- b. How have the sales evolved over the years?
- c. What was the return on equity of your firm in:  
2003:  
2004:  
2005:
- d. Has your company reached above- or below industry average cash flows?
- e. Have you paid dividends to non-family shareholders?
- f. Have you created or destroyed market value? Is market value relevant for you?

**23. What are the most *important social outcomes* to the ownership and management of the business or group?**

- g. Does the family consider itself a social entrepreneur – are their social impact goals strategic and intentional or an evolutionary bi-product?
- h. Employment for people in the local community (or just continuity for employing family members)?
- i. Support for surrounding society, clubs, associations etc.?
- j. Philanthropy – how local/regional is it – how personal is it, i.e. driven by family values and mission?
- k. Is family business continuity, survival and succession success, i.e. legacy is the social driver versus larger social goals?
- l. Is the family's social prestige and influence the key social driver versus larger social goals?

**24. What is your view on the likelihood that your family business or group will achieve their goals over the long run?**

- a. What do you need to ensure that you can meet these goals?
- b. What would keep you from meeting these goals?
- c. How will the family influence and or involvement hinder or constrain you in meeting these goals?
- d. Describe your role in ensuring your meet these futuristic goals?
- e. Do you consider these goals "entrepreneurial"?
- f. Do your goals lead your family to transgenerational wealth creation?

### Appendix 3: Coronilla's organizational structure

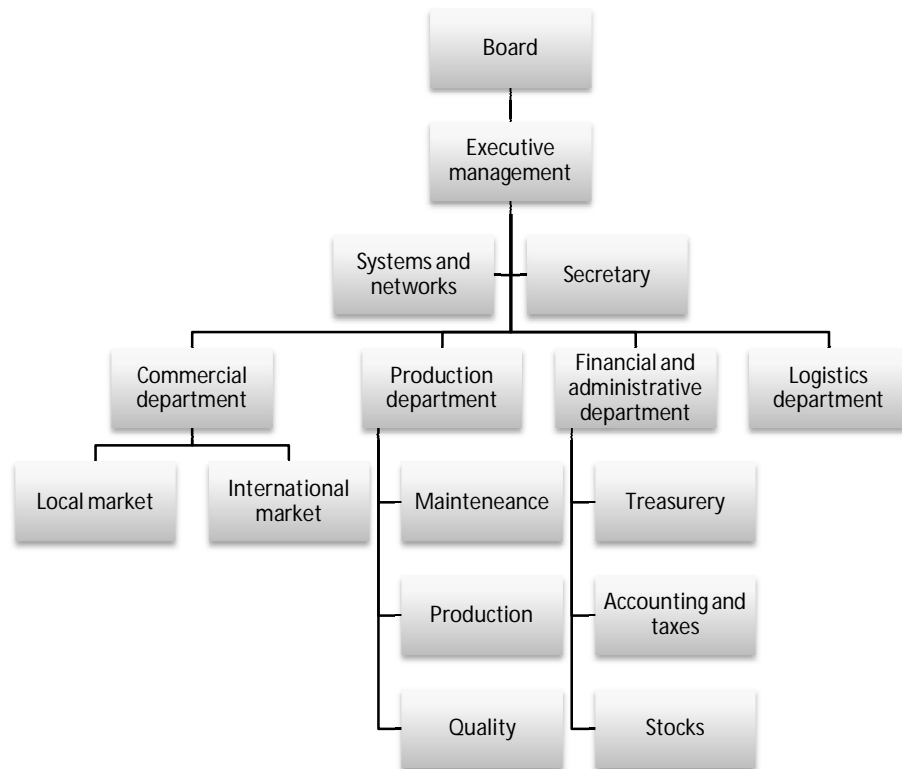


Figure 15: Organizational chart (Source: D. Pelaez, Coronilla)