PERENNITY STRATEGIES IN THE FAMILY BUSINESSES FROM THE WINE INDUSTRY: MODEL FOR THE INTERGENERATIONAL ENTREPRENEURSHIP* 

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Abstract: Starting from the basic constructs - Entrepreneurship, Family business, Succession - we intend to explore the virgin ground of the intergenerational transfer of the ownership, mission and vision of a family business, and the extent to which it transposes to entrepreneurship in the next generations. Treating this combination of constructs in the wine industry context is unique, especially as it implies identifying factors such as risk, innovation, culture, value, vision, the notion of "stewardship", cohesion, which either speed up or threaten the continuity of the entrepreneurial activity. The result of introducing these factors in the mix of constructs will lead to academic and practical contributions, our ambition being for this preliminary model to generate the interface between strategic management and entrepreneurship in the wine industry.

JEL classification: M21, O31, O41

Key words: critical; entrepreneurship, wine industry, family business, perennity strategies

1. INTRODUCTION

As for many family businesses, one of the main objectives of winemaking family farms is to pass on control of a sound and improved business to the next generation. Family farming remains of totemic importance despite declining numbers of farms in many parts of the world, coupled with the expansion of corporate farming. Intergenerational succession represents the renewal of the family business and can potentially act as a helpful corrective in addressing the apparent increasingly aged population of founder farmers. Farming remains a largely inherited occupation, in contrast to many other professions in contemporary society, one in which the transfer of business control and ownership to the next generation is arguably one of the most critical stages in the development of the business (Uchiyama, Lobley, Errington, and Yanagimura, 2010).

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The main entry route into vine growing remains intergenerational transfer within a family. Many winemakers can trace their family’s occupation of the winery back three generations or more, and there is evidence of a strong "rural ideology" that prioritizes passing on the farm within the family (Barclay, Foskey, and Reeve, 2005). In addition to physical assets, intangible assets (e.g., tacit knowledge, leadership experience, authority, decision-making power, equity) are transferred to the successor. Even in the wine industry, succession is an issue that requires analysis from the perspective of family, management and ownership systems, imposing significant changes: realignment of family relationships, redistribution of influence traditional patterns, restructuring of management and ownership structures.

2. CONCEPTUAL FRAMEWORK

Three constructs pan out (Figure no. 1), giving start to this discussion - entrepreneurship, family business and succession, studied individually, with the intention of exploring the virgin soil of intergenerational transfer of ownership, vision and mission of a family business and the extent to which it translates into entrepreneurship to future generations. Placing these constructs in the context of the wine industry is unique, especially for that it involves identifying factors such as risk taking, innovation, culture, values, vision, the notion of "stewardship", cohesion, with implications on the process of succession.
line, are inherently entrepreneurial in nature, thus allowing them to survive and thrive in fast changing environments, a special note making process planning and strategic management in this context.

2.1. Exploring the constructs

**Entrepreneurship.** It is often argued that an entrepreneur is serial in his approach - he starts a project and, once finished, proceeds to the next. Bruyat and Julien (2001) present the definition of entrepreneurship as a summary of key influencing factors that made a distinction between function and innovation, thus dichotomizing the perception on the entrepreneur. In the 17th century, Cantillon argued that the entrepreneur is the person that takes risks and may legitimately acquire any profits, while Turgot and Say added that the entrepreneur obtains and organizes factors of production to create value. Instead, Schumpeter’s entrepreneur is innovative, going over the contradictions of its system.

**Family business.** Studies on succession shows that about 1/3 of post-start-up family businesses survive and reach the 2nd generation, 12% are still viable in the 3rd generation, and only 3% of all family businesses operate after the 4th generation. This poor family business dashboard is a concern, given that the main threat to businesses may be family members. Colli (2003) provides a definition of family business based on kinship, ownership and control. Kinship is defined by people related either by blood or marriage. Ownership refers to the type of property on the business capital, and control is the authority on the business strategic management. Aldrich and Cliff (2003) comment, that in the last century, family composition, roles and relationships have changed. The ingredients of a family business appear under the spotlight - governance, management and family - providing a platform where durability is recognized by vision. Vision can change over generations, but, if supported by the family principles and the founder’s influence, the intrinsic value of vision can be sustainable and recognizable across generations.

**Succession.** Succession (continuity) is a process, not an event. This distinction makes it clear that succession is not just a task but an important process for the life and future of a business. In other words, using a monarchy as an example, succession is what happens after the death of the Queen, but preparing the successor (Prince/Princess) is part of the process. Handler (1990) proposes a theoretical model of resistance to succession in the family business which categorizes succession as a conspiracy, and not as the founder’s fault for not planning the succession: at the individual level (L.I), attention will be given to the founder and the next generation, recognizing the importance of the founder due to the influence, centrality of position and possession (Sharma, 2004). The founder initially culminates the vision and culture of a family business that must be transmitted to the next generation by the, interpersonal and group level (L.II) of intergenerational transition. Some speculation about succession point out the founder’s tendency to retain control after his mandate is over. His reasoning is based on fact that current legal systems in many Western countries require a separation of ownership and control. There are also reputational benefits and competitive advantages that can be preserved through leadership in the family
and idiosyncratic know-how that is transferred more efficiently through family members. There comes the organizational (L.III), environmental (L.IV) levels.

2.2. Exploring the overlaps

**Entrepreneurship-Family Business Relationship.** Entrepreneurship is important for the family business sustainability, but in certain circumstances could be detrimental to it. Entrepreneurship suggests creating (and recreating) products and services, and the company evolution to provide sustainable growth. Considering the unique dynamics of a family business, the potential aversion to entrepreneurial change is significant. Family business and entrepreneurship overlap with early experiences of entrepreneurs’ family, including family involvement and support during start-up. This could include family involvement in ownership and operation and employment of family members and inheritance of management positions.

**Family Business-Succession Relationship.** A key area of interest is the succession and intergenerational transfer of the business - especially the dynamics of creating a dynasty (Fletcher, 2004). In addition, the issue of transfer of the founder’s vision to other family members rises. Here is where entrepreneurship becomes a clear need in the process of succession: “founders try to perpetuate the family legacy and to ensure continuous family control through intergenerational succession” (Miller et al., 2005). The role of the founder/entrepreneur found towards the end of his mandate is often difficult, as he does not want to give up what he created and developed, frustrating the succession preparation and resulting in ignoring the need of choosing and mentoring a successor. The problem is that founders tend to gravitate towards rather shaping the protégé according to their own image, than to create what business needs for growth. This problem is recognized in retirement. Founders filled with a glut of skills, activities, environments, roles and relationships, which predisposes them to search internal continuity (continuous strengthening of their personal identity, self-esteem and ego power), and external continuity (responsibilities, relationships and predictable social roles). Other factors that influence resistance to succession are the business characteristics, culture and structure.

**Entrepreneurship-Succession Relationship.** Problems arising when a business is transferred from the founder of the family business to the next generation are related to entrepreneurial succession and strategic planning and process management. Entrepreneurial succession was interpreted as a continuation of innovation and entrepreneurial behavior from one generation to the next (Woodfield, 2008), which can manifest itself by translating the founder’s vision to the next generation through succession. Davis (1968) is credited with being the first to bring to light "entrepreneurial succession". Davis considers the entrepreneur as an important person who has not only the ability to take risks and innovate, but sees that the newly formed organization operates when direction can be "transmitted" to others, confirming the extended family as "most fundamental and stable unit of social organization in traditional society".
2.3. Entrepreneurship-Business Family-Succession Nexus

The intersection of entrepreneurship and family business becomes successful in the context of succession. Changing market conditions require continuous adaptation and renewal. The company’s vision must be developed and implemented and entirely changed by successive generations to ensure economic growth and give a sense of ownership to the business. Wine business performance and development are influenced by succession issues. The "succession effect" (Potter and Lobley, 1996) refers to the impact of the "wait and see" status of succession on the farm business. Evidence suggests that wineries should be long over development, in order to provide a business capable of supporting more than three generations. The "successor effect" refers to the impact of the successors as they assume managerial control. In many cases, successors return from a period of agricultural training eager to implement on the business their innovative approach and new ideas. Davis (1968) points out that there may be a problem when "social function" outweighs "economic profit", affecting "business stability" and "continuity".

3. Method

Family business is seen as a system composed of: (i) a subsystem composed of family history, traditions, life cycle, (ii) a business subsystem comprising strategies and structures implemented to create value, (iii) a subsystem composed of individuals, family members characterized by their centers of interest, skills and their level of participation in the control and direction process (Habbershon et al., 2003). On this system relies our further discussion on strategic management dimensions in connection to already mentioned FB specificity criteria.

4. Theoretical Development

This definition of the constructs has the merit to focus on management purpose as the core of the family business instead of the usual, more reducing criteria, such as the percentage of participation in the control or management. It emphasizes on perennity search as criterion for defining and delineating the nature of family firms. Therefore, both theoretically and empirically, family businesses are considered those that meet the criteria of proven or desired perennity, insofar as it determines risk taking, strategic horizon, values that in turn influence the innovation process. The result of introducing these factors in the mix of constructs is wanted to generate the interface between entrepreneurship and strategic management in the wine industry. In this stream of thoughts, we consider five dimensions of strategic management that are particularly affected by factors involved in family business succession.

Scanning intensity. Scanning provides managers with information about events and trends that are relevant to their environments, facilitating recognition of opportunities and being a method of "uncertainty absorption". An intensive scanning behavior, completed with a short planning horizon and a flexible planning system is a practical approach to entrepreneurial businesses that operate
in a turbulent environment, whereas they must be continually innovative to stay competitive. For winemakers, scanning intensity is not necessarily an advantage, but rather a safety measure. Depending on the climate in that year, the manager must use its knowledge of the past to try to prevent future changes. For that action on grape quality is difficult and typicity of products must be kept, any revolution is prohibited. Especially when a wine farm lays on values such brand awareness and product quality, it cannot afford to tarnish the image and implement hazardous projects which endanger the descendants’ wealth.

**Planning flexibility** refers to the business capacity to change its strategic plan based on the opportunities/threats in its environment. Once the manager prepares a plan, there is a tendency to try to "make it work", which leads to resistance to change, following the establishment of a certain mentality and fear to losing status, and "the more clearly articulated the strategy, the greater the resistance to change by the occurrence of both psychological and organizational inertia". Contrary to ideas that the family businesses would be less flexible, resistant to change and attached to traditions, the experience in the winemaking industry emphasizes the link between a family-specific culture and innovation. Hall et al. (2001) argue that the dominant culture of a family business is the result of beliefs, values and objectives which find their origin in family, history and social relations. Transmission of values from one generation to another generates relatively stable cultural features within the family business. But this stability is the one that paradoxically allows promoting flexibility in family firms (Hatum and Pettigrew, 2004). Family values and cultural variables act as filters that lead to the orientation, shaping of strategic decisions, as a source of adaptation or pro-action (Mignon, 2001).

**Planning horizon** refers to the length of future period that decision makers will take into account in planning. Horizon should be long enough to allow planning for expected changes in the strategy and yet be short enough for sufficiently detailed plans to be available. The most important concern of entrepreneurial businesses is innovation in products, which usually must be done in the short term rather than long term to maintain a sustainable competitive advantage. In addition, entrepreneurial firms operating in turbulent environments must reach short-term in order to survive on long-term. A strong, open culture, based on values shared over generations seem to be a catalyst for innovation in wine industry, involving adaptation to competition intensification and changes in consumer tastes, and to cost, quality and environmental constraints.

**Locus of planning.** A deep locus of planning legitimizes the active participation of mid- and lower-level managers in the planning process. Diversity of views is clearly limited where the planning is limited to business founders, not only because of the small number of people involved, but the homogeneous nature of management and team cohesion, in inverse relationship with innovation and change. Family involvement in business management as a source of diversity and the amount of new experiences, and family control positively influence on risk taking (Zahra, 2005). Thus, long-term strategic horizon and longevity of management and control structures allow the distribution of resources for innovation and organization development (stewardship), noting in this case the
impact of family capital in the sense of the theory of resources on creating a sustainable competitive advantage. As for the wine business, the locus of planning succession and transfer of management control and other intangible assets such as knowledge of vineyard, refers to the number of specific decisions taken by the principal winemaker, shared with the successor, or taken solely by the successor. Factors critical to developing leadership interest in the family business include: (1) time with the father (owner) in the winemaking business, (2) exposure to various aspects of the family vineyard and winery, (3) development of skills in the farm, (4) encouragement and positive attitude from the parent about successor’s entering the business, (5) making an individual contribution to the team, (6) the time at which an opportunity to join is presented, correlated with the owner’s age.

**Control attributes.** The purpose of a control system is to ensure that business strategies reach their predetermined goals and objectives. This means that family business control systems must stimulate innovation, pro-activity and risk taking. **Strategic control** is able to reward creativity and discovery of opportunities through innovation. The difference between conservative and innovative businesses in the wine industry is very fine and depends not only on the will and skills of the owner, but also on attributes of primary materials: climate, soil, grape variety, the terroir, the winemaking process and the wine aging recipe. **Financial control** is specific to distinctive features of conservative companies, being an opportunity for involved parties to agree on objective performance standards long before any assessment of performance. Experience shows that if successors are going to be solely responsible for a decision, that decision would involve vineyard management and the selection, recruitment and supervision of employees. Financial decisions are most likely to be made by the principal farmer only. Parent’s reluctance to cede authority to his successor can be correlated with psychodynamic aspects of leadership. Owner’s traits often manifest as a need for achievement and power, and as an internal locus of control, reflecting a deep-seated desire for immortality and a sense of indispensability with respect to the business, linking successor’s drive to the ”entrepreneurial romance” of the founder. Of high interest definitely is to examine the process of succession or the process of transferring managerial control and intangible assets, such as farm-specific knowledge and managerial skills, more likely for the successors who are on the direct route to succession (after they leave school) than successors on the diversion route (professional detour) (Uchiyama et al., 2008).

5. **Conclusions**

As an entry route to agriculture, succession must be regarded in the context of “intimate coaxing style of management” of owners of a family business - “a sustainable institution protecting not only its economic base, but also its place and surrounding”. The strength of a family business is based on close relationships between family members inflaming management continuity, and the ”sharing” of tangible and intangible assets and the detailed knowledge of the vineyard resources. "Succession and the failure of succession can have a
powerful influence on the development trajectory of a winery” (Lobley, 2010). The decision to retire from a career seen as a "way of life" for the founder, one in which the individual’s and family’s social, cultural and economic history and identity inosculate, is often a hard decision to reach. Where a successor has been identified, the sequential hereditability of the "reins of the business" depends on the timeliness and "smoothness" of intergenerational transfer.

**References**


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