Business Dynasties: An Evolutionary Perspective

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1. Business Dynasties: Where Family meets Business meets History

Families that accumulate significant wealth via the transgenerational control of companies, called business dynasties, are often tainted with an aura of mystery and nostalgia in the public eye.[3,4] As business dynasties are an ecosystem of family and business, they are a fertile soil for the rise and fall of businesses, families, and individuals. The variety of challenges that stem from the symbiotic relationship between family and business are why studies typically assume that dynastic control over firms is inefficient, particularly in developed economies.[5,6] Yet, while being a prominent phenomenon in emerging countries, business dynasties are also found in developed Western economies – to name only a few examples: Agnelli family in Italy, Hermes family in France, Quandt family in Germany.[7]

Another prominent and vivid case depicting the ride of emotions which can make business dynasties so compelling for both the press and academia is the Gucci family. After its foundation in 1921, the Gucci family had successfully guided its company specialized in leather ware through various socioeconomic developments including a world war. However, heavy disputes and intrigues within the 3rd generation led to the sale of the company in 1993 and the assassination of Maurizio Gucci, once considered a potential successor, in 1995. Besides the various challenges business dynasties face in the family domain, such as the selection of a suitable successor, the erosion of family unity, and the appearance of family conflicts, their survival is tested in the business domain as well. Changes in the socioeconomic environment pose a potential threat to the prosperity of a company and thus to the survival of the business dynasty, time after time.

1 Würsten, Matthias Christian: Three Essays on Owner Control in Private Firms: Dynasties, Employee Empowerment and Entrepreneur Faith. Thesis, 2022.

2 The research project on business dynasties was carried out by the three researchers: Prof. PhD Josh Wei-Jun Hsueh, Dr. Matthias Ch. Würsten, and Prof. Dr. Thomas Zellweger.

3 Carney, M., & Nason, R. S. (2018). Family business and the 1%. Business & Society, 57(6), 1191-1215.

4 Economist, T. (2008, May 10). Business: Dynasty calls; Face value. The Economist, 387(8579).

5 Caselli, F., & Gennaioli, N. (2013). Dynastic management. Economic Inquiry, 51(1), 971-996.

6 Casson, M. (1999). The economics of the family firm. Scandinavian Economic History Review, 47(1), 10-23.

7 Iacobucci, D., & Rosa, P. (2010). The growth of business groups by habitual entrepreneurs: The role of entrepreneurial teams. Entrepreneurship Theory and Practice, 34(2), 351-377.

In light of all these hurdles that business dynasties face in both the family- and business-domain, one may wonder how various business dynasties have thrived over generations. The secret for their formation and continued success lies in the effective co-evolution of family dynamics and business activities – both following an evolutionary process. The next chapter clarifies how the formation of business dynasties can be explained through the lens of evolutionary theory.

2. Formation of Business Dynasties: An Evolutionary Process

As an umbrella theory, evolutionary theory is typically used to explain change and progression of systems, organization, groups, and individuals.[8,9] To assess the core dynamics and tensions in the multi-layered contexts of business dynasties, adopting an evolutionary perspective – more specifically, a Darwinian perspective – proved to be appropriate, if not innovative.[10] As business dynasties are a construct of two domains (family, business), distinct evolutionary processes are typically adopted by families, as opposed to firms.

On the one hand, dynamics in the family domain tend to follow a pre-configured sequence of birth, marriage, and death. On the other hand, change processes on the firm-level evolve in less pre-configured ways, but strongly resemble the cycle of variation, selection, and retention as depicted in Darwinism. Subsequently, an explanation is provided on how the parallel, yet asynchronous co-evolution of both family- and business domains drive the formation of business dynasties.

2.1 Variation: Effects of Births and Marriages

Variation in a business dynasty either stems from within the family, caused by a) the birth of a new family member, or from outside the family, caused by b) the expansion of the family through marriage.

a) The arrival of an own child marks an important turning point for a leader of a business dynasty. Motivated by the prospect of continued family control over the business, dynasty leaders begin to gradually engage in additional, selected business activities (e.g., acquisition of a new firm, diversification of business portfolio) with the intent to eventually pass it down to the next generation.[11] In contrast, the birth of a grandchild (e.g., 3rd generation) appears to make senior-generation leaders (e.g., 1st generation) aware of the professional maturity of their own children as potential successors.[12] Thus, as the arrival of a grandchild marks a milestone in the inevitable cycle of life, business dynasty leaders begin to push the succession process with their children.

b) Data shows that variation through marriage has been a double-edged sword for business dynasties. On the positive side, they can profit from a successful infusion and integration of new members («in-laws») into the business dynasty.[13] For example, Emile Hermes was inspired by his wife, Julie Hollande, who complained about the designs of existing handbags at the time. He went on designing his own handbag collection, which is a success story until today. Later, his son-in-law and perfumer, Jean Guerrand, facilitated the diversification of Hermes into the perfume industry. On the negative side, if in-laws are not welcomed by the family, it decimated the chance for their spouses to be eligible for a future leadership role. For example, when Maurizio Gucci married Patrizia Reggiani in 1972, he was excluded from the company by his father.

8 Aldrich, H. E. (1979). Organizations and environments. Engelwood Cliffs, NJ: Prentice-Hall.

9 Hannan, M. T., & Freeman, J. (1977). The population ecology of organizations. American Journal of Sociology, 82(5), 929-964.

10 Darwinism is the idea of passive selection based on a constant cycle of variation, selection, and retention. Variation indicates that there are no two identical organisms. Selection means that organisms need to be well adapted to the environment. Certain variation that does not fit the environment loses the fight over scarce resources and is eliminated. Finally, retention denotes that organisms preserve and pass their variation to the next generation. (Aldrich, H. E., & Ruef, M. (2006). Organizations evolving (2nd ed.). London: Sage Publications Ltd.; Van de Ven, A. H., & Poole, M. S. (1995). Explaining development and change in organizations. Academy of Management Review, 20(3), 510-540.).

11 Diaz-Moriana, V., Clinton, E., Kammerlander, N., Lumpkin, G., & Craig, J. B. (2020). Innovation motives in family firms: A transgenerational view. Entrepreneurship Theory and Practice, 44(2), 256-287.

12 Gersick, C. J. (1994). Pacing strategic change: The case of a new venture. Academy of Management Journal, 37(1), 9-45.

13 Le Breton-Miller, I., & Miller, D. (2018). Beyond the firm: Business families as entrepreneurs. Entrepreneurship Theory and Practice, 42(4), 527-536.

2.2 Selection: Effects of Successor Selection Process

Selection processes in business dynasties occur either a) before power is passed from one generation to the next or b) right after a new leader is in power.

a) One of the most critical and disruptive family events for the continuity of a business dynasty marks the death of a family business leader. Oftentimes, a looming power void within the business dynasty triggers the start of a successor selection process and marks the beginning of intensive competition and infighting among potential successor candidates. As an example, after Giovanni Agnelli passed away in 2003, his grandson John Elkann was drawn into legal fights with his aunt, Margherita Agnelli, over his grandfather's inheritance and leadership position. Similarly, William Henry Vanderbilt was at cross with his siblings for two years after his father died, before eventually taking over the leadership role in 1879. Thus, if a family is unable to agree on a clear successor before the death of the business leader, the business dynasty runs the risk of dissolution. To prevent such conflicts, some leaders appointed their successors before their own passing. The Sainsbury dynasty, for example, followed the same path of leadership succession for five generations: the successors entered the firm in their early 20s, gradually became executive-level managers in their 50s, retired, and transferred their chairperson positions to the next successor before their deaths.

b) After a clear next generation leader is selected, business dynasty leaders tend to implement punctuated changes in the business domain[14] to accommodate their firms according to their vision. Such changes surrounding their firms typically involve acquisitions of and mergers with other companies, divestments of businesses, and diversification into new sectors and industries. In addition, it appears that new business dynasty leaders initiate changes in the family domain by striving for a rearrangement of their relationships with non-successors.

It turns out that a decisive factor for the continued success of a business dynasty relates to the stance a non-successor takes towards the business dynasty because or despite having lost the «race for the leadership position». In the following section, four different retention paths for non-successors are drawn ranging from highly cooperative to highly confrontational.

2.3 Retention: Accommodation of Non-Successors

It is a key finding that the dynamics between new business dynasty leaders and non-successors substantially affect the co-evolution of the family- and business domain and, ultimately, the formation of family dynasties. It is beneficial to business dynasties, if non-successors maintain cooperative relationships towards the business dynasty and its leader. The four retention paths identified involve non-successors a) being involved in private family holding companies, b) keeping ties with the business dynasty as business partners, c) pursuing careers outside and unrelated to the business dynasty, and d) conducting a conflicted separation from the business dynasty.

a) One way to cooperatively involve non-successors in the business activities of the dynasty is to assign them a role of a shareholder and / or board member in a coordination entity, such as a private family holding company. Such a move comes with several beneficial impacts as i) a costly payout of family shareholders can be avoided, ii) a potential sale of shares to non-family members can be prevented, iii) non-successors are limited in their ability to interfere in business operations, and iv) opportunities for non-successors to be supportive of their family and business are provided.[15] In this way, coordination entities such as holding companies can consolidate control in both the family and the business domain and act as an instrument to ensure unity within the business dynasty.

14 Tushman, M. L., & Romanelli, E. (1985). Organizational evolution: A metamorphosis model of convergence and reorientation. In B. M. Staw & L. L. Cummings (Eds.), Research in Organizational Behavior (Vol. 7, pp. 171-222). Greenwich, CT: JAI Presse.

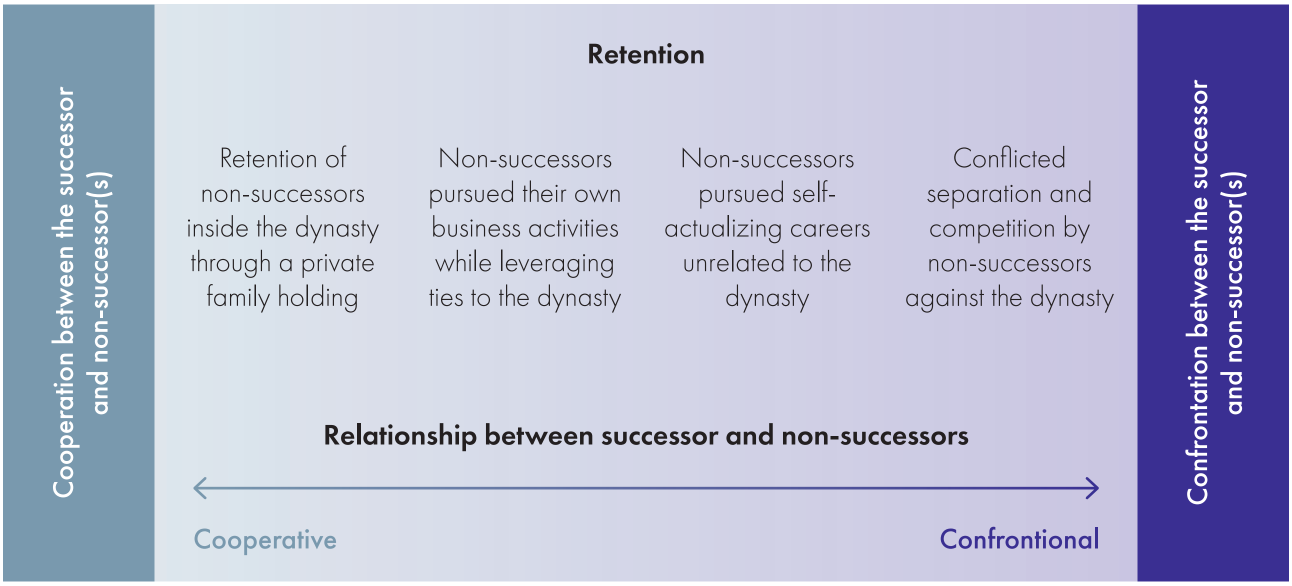
15 Jaskiewicz, P., Combs, J. G., & Rau, S. B. (2015). Entrepreneurial legacy: Toward a theory of how some family firms nurture transgenerational entrepreneurship. Journal of Business Venturing, 30(1), 29-49.

b) In a different attempt, some non-successors may decide to pursue their careers outside the core business but still related to the business dynasty while keeping cooperative ties with the family and newly appointed business dynasty leader. For example, Andrea Agnelli – nephew of the third-generation leader, Giovanni Agnelli – did not turn out to be the next business dynasty leader of the Agnelli dynasty. However, he assumed position as president of the family-owned football club, Juventus F.C., a career path outside the dynasty's automobile business, but still related to the business dynasty.

c) Other non-successors aim to pursue their professional careers outside of and unrelated to the business dynasty while still maintaining cooperative ties to the family. Individuals who follow this path oftentimes strive for careers in fields with high publicity and social status such as politics, arts, or social engagement. It is not ruled out that such career paths are beneficial to the business dynasty as they can indirectly contribute to its reputational and political capital.[16]

d) The worst outcome for all parties involved is when non-successors decide to remain hostile and spiteful towards the business dynasty leader as a result from the disappointment of not becoming the next business dynasty leader. In some cases, hostile non-successors drag the business leader into tedious legal fights or use insider knowledge to start their own business and compete against the dynasty's business.

Below figure shows the four retention paths for non-successors:[17]



16 Le Breton-Miller, I., & Miller, D. (2018). Beyond the firm: Business families as entrepreneurs. Entrepreneurship Theory and Practice, 42(4), 527-536.

17 Würsten, Matthias Christian: Three Essays on Owner Control in Private Firms: Dynasties, Employee Empowerment and Entrepreneur Faith. Thesis, 2022.

3. Conclusion and Relevance for Members of Board of Directors

The article above can be understood as a call to change perspective from a company-centric to a family-centric view, at least from time to time. Traditionally, the job profile of a BoD member consists of many topics allocated to the business domain (e.g., definition of organizational structure, providing strategic guideline, review and approval of budget, etc.). Given the findings above, BoD members of family business might want to include developments in the family domain into their considerations as well. It is specifically the life-cycle developments in the family domain, such as birth, marriage, and death which may directly imply and / or trigger changes in the business domain. A possible way to interlink the family- with the business domain in family businesses is to ensure the effectiveness of governance mechanisms. As laid out by Zellweger (2017), there are (potentially) four types of governance to be applied and coordinated in family firms: corporate governance, family governance, ownership governance, and wealth governance.[18]

Below are summarized the four key implications for members of a board of directors of a family firm:

- The extension of the family has implications for the business. The arrival of the next generation triggers changes on the business domain. The birth of a leader's child leads to gradual changes on the business level (diversification, acquisitions). The birth of a leader's grandchild marks the starting point for the materialization of the succession process. Marriage, as a form of family extension, can be a double-edged sword for a business dynasty. The prevention of conflicts with and the accommodation of in-laws are decisive for the success of generational transitions of dynasties.

- The transparent and timely appointment of a clear successor can smoothen the generational transition. The transparent appointment of a clear successor before the death of the business dynasty leader prevents a looming power void within the business dynasty and ensures a smooth transition from one to another generation. In case the family has not assigned or is unable to agree on a clear successor, the passing of the business dynasty leader poses a threat to the survival of the whole business dynasty.

- The completion of a succession process is followed by changes in the business and in the family domain. After taking over the lead, successors implement punctuated changes in the business domain (M&A, divestments, diversification) and seek to rearrange their relationships with non-successors.

- A key aspect for the continued success of a business dynasty is whether a business dynasty leader manages to keep non-successors on board. Four distinct non-successor retention paths vary in the extent to which the ties between successor and non-successor remain cooperative or confrontational. Spiteful non-successors can lead to the ultimate demise of a business dynasty. Coordination entities, such as holding companies, can consolidate control in both the family- and business domain and ensure unity within a business dynasty.

18 Zellweger, T. (2017). Managing the family business: Theory and practice. Edward Elgar Publishing.