

How to Build a Family Business Portfolio: Your Location Matters

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KEYWORDS: Family Business Review, family business advice, Successful family businesses, How to grow a family business.

We have always been deeply interested in the topic of why and how business families build up a portfolio of businesses, and how they manage this portfolio successfully in the long run. From many years of studying this topic, reviewing what other researchers have found, and talking to practitioners, we've discovered that a family's expansion choices are heavily influenced by a surprising factor: whether the family business is located in the city or the country.

Our research looked at this more deeply, and explored some unanswered questions: How do these portfolios really grow, and how does this depend on where the families live? How does location affect whether business families create new firms (so-called "satellite firms"), acquire existing ones, or expand to related or unrelated industries? How do family dynamics, such as parenting of the next generation, influence portfolio strategies? These aspects fascinated and inspired us because they should add important insight on the growth strategies of business families.

We expected that family businesses located in cities would grow their portfolios differently than those in rural areas, and that the reasoning behind their decisions would be different too. Our study uncovered some interesting differences and some unexpected findings on why family businesses grow their portfolios.

Our Research

Through the great network of one of the authors, we were able to study four multi-generation Pakistani family business portfolios, involving two or three family generations. Importantly, two were located in the country and two in the city. These four portfolios included 23 satellite firms, and we conducted 43 interviews with family members from different family

generations. We also collected other materials and information, such as field notes or newspaper articles, to get the full picture.

In the interviews, we sought to capture all the elements that were relevant for investigating family business portfolio growth, such as the motivation for building up the portfolio, the way the satellite firms were added, and the reasoning behind their decisions.

Differences in The Growth of Rural versus City-Based Business Families

Our study shows how family business portfolios grow, and why different growth paths occur depending on location.

Rural family business portfolios tended to grow internally, meaning that in most cases, the satellite firms were founded by the business family itself. This is because families living in rural areas raise their children a specific way. We saw more traditional child-rearing practices -- meaning that parents expose their children to the business early in their lives, strategically choose their education for them, and exercise tight control over business decisions. This means the path that children take is more or less pre-defined by the parents. In addition, rural family business portfolios mostly grow through acquiring related businesses, because parental entrepreneurs imprint a low risk-taking behavior on their children.

In contrast, the portfolios of city-based family businesses tend to exhibit "external growth," which means they'd rather grow through acquisitions and partnerships. City-based parent entrepreneurs were

more likely to adopt contemporary childrearing practices: letting their children choose whether or when they join the business, allowing them to freely choose their education on their own, and giving them a lot of responsibility for their own business-related decisions. Unlike the rural businesses, these urban family business portfolios tend to grow through unrelated diversification, with the business families exploring several different types of businesses and industries. This, in turn, is driven by parental entrepreneurs imprinting a high-risk taking behavior on their children. If the father, for instance, has been an “entrepreneurial maverick” throughout his life, and the family accepts taking high risks in general, children are thus encouraged to take high risks as well.

While we expected context-related differences, the strong impact of the city versus country context really surprised us. The differences in approaches to child-rearing and risk accounted for some of the differences, but we also saw other factors that may lock families into specific growth paths depending on where they lived. For instance, in rural settings the availability of entrepreneurial opportunities and resources is much more limited than in the urban settings. Combined with the different family traditions and values that are prevalent in the respective contexts, it seems hard for family business portfolios to “break out” from their established paths.



What Family Businesses Can Learn From Our Research

In general, all our investigated family business portfolios have been successful, as they have managed to grow over several decades and generations. Still, our study will hopefully inspire family business owners and startup founders to reflect on how their location affects their strategic growth decisions. The context clearly affects their future growth trajectories – and being aware of this

should be helpful in crafting promising growth strategies.

Family business leaders who are also parents should reflect on how **different aspects of their children’s upbringing** (<https://familybusiness.org/content/Firm-but-flexible-parents-raise-the-best-family-business-leaders>) might influence how the business grows in the future, when the children take over. As a result, they might adapt their child-rearing practices and/or be more aware of the example they set for their children. For example, rural business families might consider whether they might want to adopt more contemporary child-rearing practices if they want their portfolios to grow more externally or through acquiring unrelated businesses. In addition, the younger generation should think about whether and how the way they were raised by their parents might make them feel they have only one choice in their strategic decisions, and on how they may “break free” from this pattern. This, in turn, may also induce them to reflect on how they intend to raise their own children.

We believe that while there are many routes to success and no “one size fits all” solution, entrepreneurial families should consider the possible impact of where they live on how they grow. This should allow them to pursue the best possible strategies to achieve portfolio growth, manage all their businesses well, and ultimately enjoy the financial and non-financial successes of their portfolios. But families should also challenge whether their portfolio growth decisions are “locked in” and led by their rural or city backgrounds, and consider whether other growth options are overlooked because of experience imprinted by context.

Explore the Research

Rural and Urban Family Business Portfolio Growth: The Role of Entrepreneurial Legacy

(<https://journals.sagepub.com/doi/full/10.1177/08944865231199791>), *Family Business Review*, October 2023

EDITOR'S NOTE: This article was produced in partnership with Family Business Review, a leading journal in the field of family business, as part of our mission to bring research-proven insights and practical advice to our readers.