

HOW IMPORTANT IS ENTREPRENEURIAL ORIENTATION FOR FAMILY BUSINESSES?*

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Abstract

The purpose of this article is to explore how important is the entrepreneurial orientation for family businesses. Entrepreneurial orientation is an important concept within the entrepreneurship field and it should be maintained through family generations. Proactiveness, risk-taking and innovativeness form the essence of entrepreneurial orientation, while the generational level is an influential variable, related to entrepreneurial orientation. A preliminary and conceptual study of the described problem was undertaken. Although risk-taking is essential in developing entrepreneurship and sustaining the family legacy, family businesses are risk-averse, due to concerns about reduction in family wealth. Entrepreneurial

orientation may be strong at the founder stage, but it decreases as the business moves through generations. Entrepreneurial families should have an entrepreneurial orientation towards business activities, as it provides the vision to mobilise the knowledge within the family business. Strong and consistent family leadership is needed to create a climate favouring entrepreneurial orientation. Families should develop an entrepreneurial spirit and orientation that can sustain the current generation and the entire family into the future.

Keywords: *entrepreneurial orientation, family business, proactiveness, risk-taking, innovativeness, transgenerational entrepreneurship*

1. INTRODUCTION

The importance of family businesses is not only confined to their economic contributions (Ramadani & Hoy, 2015; Ferramosca & Ghio, 2018; De Massis et al., 2018; Macdonald, 2018); they also have an impact on the gross domestic product (GDP) of most countries (Ferramosca

& Ghio, 2018). Family businesses provide long-term employment (Fernández-Aráoz et al., 2015; Halkias & Adendorff, 2016; Ramadani et al., 2017) and create between 50% and 80% of jobs in most countries (Osnes, 2017). They, also, create some stability in communities and serve as breeding ground for entrepreneurial

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activities (Macdonald, 2018). According to Macdonald (2018), family businesses in the United Kingdom produce more than 34% of national GDP. They influence between 35% and 45% of the United States (US) 500 largest companies, contribute 64% to GDP in the US and provide employment to 60% of their workforce (Walia, 2018). In India, family businesses account for 90% of gross industry output and 79% of employment in the private sector (Walia, 2018). It is projected that family businesses will represent 40% of the world's largest businesses by the year 2025 (Walia, 2018).

Family businesses will become an important source for entrepreneurial activity (Le Breton-Miller & Miller, 2018). Entrepreneurial orientation provides a vision to mobilize knowledge within a family business and therefore, families should have an entrepreneurial orientation towards business activities (Cruz & Nordqvist, 2012). However, a combination of business and family constrain entrepreneurial activities (Nordqvist & Melin, 2010). According to Matthews et al. (2012), the role of the family context for entrepreneurial orientation is not well understood. There is, also, no consensus on the relationship between entrepreneurial orientation and the nature of the family business (Kellermanns et al., 2008; Casillas & Moreno, 2010; Casillas et al., 2010). Most literature on the family business and entrepreneurial orientation has been developed in relation to performance (Lumpkin et al., 2005; Casillas & Moreno, 2010; Randerson, 2018) and on differences in entrepreneurial orientation between the family business and the non-family business (Casillas et al., 2011). According to Zahra (2018), entrepreneurial risk-taking definitions vary, and it is loosely defined. Furthermore, it differs from other types of risks experienced by family businesses (Zahra, 2018). There is, also, limited

research on innovation processes and activities in the family business (Feninger et al., 2018) and on generational differences and entrepreneurship within family businesses (Sreih et al., 2019).

The objective of this article is to explore entrepreneurial orientation within the family business context. The authors aim to address a gap in the family business and entrepreneurial orientation literature with the central research question: How important is entrepreneurial orientation for family businesses? The article proceeds as follows: a theoretical review is presented on family businesses and entrepreneurial orientation, characteristics and relationships, and transgenerational entrepreneurship differences and challenges. This is followed by the methodology, results and discussion, conclusion and implications. The concluding section highlights the need for families to develop an entrepreneurial spirit and orientation that can sustain the generation and the family into the future.

2. THEORETICAL REVIEW

2.1. Family business and entrepreneurial orientation in context

Regardless of the clear lack of a unanimous definition of the term 'family business' in the literature (Howorth et al., 2010; De Massis et al., 2012; Michael-Tsabari et al., 2014; Acquaaah & Eshun, 2016; Ferramosca & Ghio, 2018; Zahra, 2018) it has been confirmed that the relationships in family businesses are influenced by the vision and goals of the business (Sanchez-Famoso & Maseda, 2014). Furthermore, the management of the long-term wealth of the family is an important objective of the business (Michael-Tsabari et al., 2014;

Zellweger, 2017). The ‘business’ side involves the control and management of the business, including the corporate governance mechanisms and skills that are needed to generate value. The ‘family’ side involves the psychological and organizational areas, which may result from conflict management, relationships in the family, respect, expectations, trust and values (Ferramosca & Ghio, 2018).

Entrepreneurial orientation is an important concept within the entrepreneurship field (Wales et al., 2011). It indicates how the business operates (Wiklund & Shepherd, 2005) and provides direction for future activities (Chirico et al., 2011). Entrepreneurial orientation focuses on the management team in the family business (Zhao et al., 2011) and the entrepreneurial behaviour of its members (Covin & Wales, 2012). Family entrepreneurial orientation concerns family behaviours that express the mindset of the family and include its own view on proactiveness, risk-taking and innovativeness. On the other hand, business entrepreneurial orientation concerns the behaviours of the business itself and how proactiveness, risk-taking and innovativeness are present in strategic decisions, the management of resource availability and how the business is developed over time (Wright et al., 2016).

2.2. Entrepreneurial orientation characteristics and relationships

Entrepreneurial orientation comprises five dimensions furthering entrepreneurship (Lumpkin & Dess, 2013); these dimensions are separate, but relate to one another (Lumpkin & Dess, 1996; Covin & Lumpkin, 2011; Randerson, 2018). According to Lumpkin and Dess (2013), the dimensions are: firstly, propensity to act autonomously; secondly, the willingness to

be innovative; thirdly, risk-taking; fourthly, competitive aggressiveness; and finally, opportunity identification. Chirico et al. (2011) state that proactiveness, risk-taking and innovativeness are important characteristics for the entrepreneurial orientation of the family business.

Proactiveness creates change (Charupongsopon & Puriwat, 2017). Highly proactive thinking brings resources together, which ultimately satisfies markets better than the competitors (Bature et al., 2018). The authors found a positive relationship between the performance of the business and proactiveness. In addition, proactiveness is an important element of businesses, characterized with a high responsive ability (Rua et al., 2018) and such businesses engage in opportunity-seeking activities (Anderson et al., 2015). Proactiveness also leads to an opportunity-seeking behaviour. It meets the current market needs and forecasts future needs (Bature et al., 2018).

Zahra (2013) states that entrepreneurial risk-taking is complex and entrepreneurs show a high risk-taking propensity. Those entrepreneurs who show high achievement motivation also have a risk-taking tendency (Radziszewska, 2014). In family businesses, calculated risk-taking is essential to develop entrepreneurs to sustain the legacy of the family (Daniell & Hamilton, 2010). It was found that the family business tends to be risk-averse, due to concerns about negative outcomes and a reduction in the family’s wealth (PricewaterhouseCoopers [PwC], 2014). Risk aversion and strategic conservatism usually exist among later generations of owners, which could lead the business to make decisions impeding growth and/or to miss lucrative opportunities (Lumpkin & Dess, 2013). It is proposed that an entrepreneurial risk-taking culture should be fostered in each generation, as

wealthy family members are at risk of being distanced from the “real” world (Institute for Family Business [IFB] Research Foundation, 2019).

New ideas, the use of creative processes, and experimentation are supported by innovation (Chandra et al., 2009; Charupongsopon & Puriwat, 2017). It was found that innovativeness has an impact on the performance of the family business in a positive way (Cho & Pucik, 2005; Stenholm, 2011). Furthermore, innovativeness has a great benefit, if the family business ownership is concentrated within a single generation (Kellermanns et al., 2012). Family businesses display diverse innovation outcomes and behaviours. They invest less and have smaller budgets for research and development (Small Business Charter, 2017; Deloitte, 2019). It was found that family businesses are often in a ‘ability-willingness paradox’ regarding innovation.

It implicates that family members do not realize their innovative ability, because of the fear to be innovative (Rondi et al., 2018). Family business characteristics may also work against innovation, such as exposure to innovative ideas from other industries, a lack of willingness to adopt ideas from outside the business, and a lack of desire to take the risk, as all the family’s “eggs are in one basket” (The Family Business Consulting Group, 2020).

2.2.1. Family business and the entrepreneurial orientation relationship

Three entrepreneurial orientation dimensions link closely to the family business, namely, firstly, the generational level; secondly, involvement of members in managing the business; and thirdly, involvement of the next generation. This relationship is shown in Figure 1.

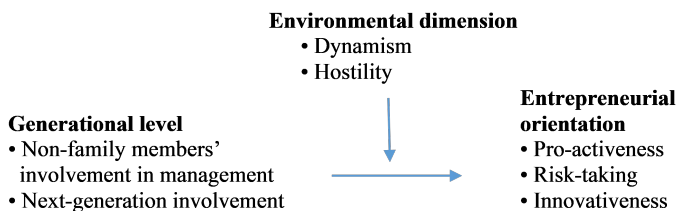


Figure 1: Relationship between the family business and entrepreneurial orientation
Source: Casillas, et al. (2011) and Cruz and Nordqvist (2012)

Entrepreneurial orientation should be maintained through generations (Cruz & Nordqvist, 2012). The family founder’s influence is associated with entrepreneurial behaviour in the first generation (Miller, 1983; Schein, 1983). Higher entrepreneurial orientation is demonstrated by managers in the second generation and in more dynamic environments (Casillas et al., 2011). Opportunity for the founder-entrepreneur

is represented in a hostile environment (Gómez-Mejía et al., 2007), while experiencing challenges to take advantage of entrepreneurial characteristics such as pro-activeness, risk-taking and innovativeness (Soininen et al., 2012). Consistent family leadership creates a climate that favours entrepreneurial orientation (Lumpkin & Dess, 2013).

2.3. Transgenerational entrepreneurship differences and challenges

Transgenerational entrepreneurship is defined as the family’s ability to create wealth across generations through entrepreneurial behaviour (Casillas et al., 2011). According to Habbershon et al. (2010), transgenerational entrepreneurship is a process, through which the family develops an entrepreneurial mindset to create entrepreneurial, social and financial value across the family generations. The generational level is an influential variable; and it relates to the entrepreneurial orientation of the business (Casillas et al., 2011; Cruz & Nordqvist, 2012). Research has confirmed that entrepreneurial orientation is greater in the first-generation (founder stage) and it declines, as the business moves through generations (Kellermanns et al., 2008; Cruz & Nordqvist, 2012). Major and Scott (2018) state that, as the business matures and passes from the family to subsequent

owners, the wealth management of the business becomes a pressing issue.

It was found that the second generation may feel overshadowed by a strong founding personality (Institute for Family Business [IFB] Research Foundation, 2019). Power tensions and politics within the family business may occur between different branches of the family during the third generation and entrepreneurial orientation is then constrained. Managerial diversity fosters entrepreneurship for businesses, controlled by third- and later family generations, as the business requires managerial skills to exploit opportunities in entrepreneurial orientation (Cruz & Nordqvist, 2012). Family businesses should involve family members, when discussing the direction that the business will follow, as entrepreneurial orientation is improved and a higher level of multi-generational involvement is ensured (Santos, 2013). Generational differences and challenges facing the family business are shown in Table 1.

Table 1: Generational differences

Family roles	Motivators	Challenges (greatest)
First generation <i>Originates the dream</i> <i>Creates a vision</i>	<ul style="list-style-type: none"> • Entrepreneurship • Risk-taking • Individuality • Control 	<ul style="list-style-type: none"> • Letting go of operational control • Passing leadership to the next generation • Letting children struggle • Designing a philanthropic mission • Creating a legacy • Educating the next generation
Second generation <i>Initiates the dynasty</i> <i>Develops a framework for family governance</i>	<ul style="list-style-type: none"> • Risk avoidance • Equality • Simplicity • Independence • Conflict avoidance • Fear of failure 	<ul style="list-style-type: none"> • Living in the shadow of a successful entrepreneur • Finding a proper role or being an active owner • Sharing ownership and/or control with siblings • Developing a philanthropic vision with siblings • Inhering or living with financial complexity • Simplifying operating structures • Parenting privileged children

<p>Third generation <i>Refines representative governance</i> <i>Accommodates diversity among family members</i></p>	<ul style="list-style-type: none"> • Ownership control • Diversity • Flexibility • Consensus • Family legacy 	<ul style="list-style-type: none"> • Living up to the family legacy • Collaborating with family over distances • Developing a new vision for staying together • Balancing nuclear family and legacy family • Finding meaning in a privileged life • Developing “seventh-generation” thinking
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Source: Daniell and Hamilton (2010)

As shown in Table 1, entrepreneurship and risk-taking are first generation motivators. During the second generation, risk avoidance is a motivator. A second-generation challenge often arises from “living in the shadow” of the founders, owners and managers. The handover from the second to the third generation is a difficult transition. Family members may find it difficult to define their family legacy, while fourth-generation owners are defined by differences in attitudes and situations, such as on risk-taking. They may see the need to foster entrepreneurship and risk-taking skills in their own children, as they “*may see the day when the size of the family will outgrow the size of the wealth*”. Families should, therefore, develop an entrepreneurial spirit that can sustain the generation and the family into the future (Daniell & Hamilton, 2010).

3. METHODOLOGY

Research on entrepreneurial orientation contributes to the entrepreneurship field, as it involves the entrepreneurial behaviour of the organisation, rather than the individual (Zahra et al., 2013). Family business is a relatively young research field (Wright & Kellermanns, 2011; De Massis et al., 2015) but it currently attracts an increasing research interest, specifically in the field of management (Acquaah & Eshun, 2016) and in entrepreneurial activities (Evert et al., 2016; Zahra, 2018). According to

Shane and Venkataraman (2000), research in entrepreneurship lacks a theoretical base. There is a need for more research to understand the family dimensions and entrepreneurial orientation (Rauch et al., 2009; Hernández-Perlines & Mancebo-Lozano, 2016).

The research presented in this paper is secondary research, aiming explore to what extent entrepreneurial orientation is important for family businesses. This study is a preliminary and conceptual one, based on a substantial corpus of literature. As confirmed by Tranfield et al. (2003), the review process consists of three stages, namely, planning the review, conducting the review, and drawing up a report and disseminating the results obtained. We first defined the topic and corresponding keywords, in order to compile the corpus of relevant publications, which included articles, reports, books, notes, and conferences. Items in languages other than English were excluded. Full texts were read, in order to evaluate whether the selected items matched the topic under scrutiny. Such assessment yielded 89 papers.

Publications were mostly found in 62 journal articles, and in 36 different journals. Overall, there were 83 items related to “entrepreneurial”, “entrepreneurship”, “enterprising”, “orientation”, and “family business/firm”. The largest concentration of articles was found in the following journals: Family Business Review (10 articles, published in the past 10 years, 2008-2018),

Entrepreneurship, Theory and Practice (8 articles, published in the past 9 years, 2009-2018), and the Journal of Family Business Strategy (4 articles, published in the past 7 years, 2011-2018).

Other journals used relate to the disciplines of business venturing, small businesses, strategic management, knowledge management, management, change management, operations management, intercultural management, economics, innovation, marketing, organizational dynamics, production, regional development, administrative, and research. Various authors support the fact that insights about opportunities within the entrepreneurship literature are enhanced by research in disciplines, such as economics, finance, marketing, operations management, science, strategic management, organizational behaviour, supply chain management and human resource management (Short et al., 2009; Li et al., 2011; Hayton et al., 2013). Items excluded from the review were: international entrepreneurship, investment, networks, stakeholders, corporate governance, organizational learning, and spin-offs. The majority of the sources were published between 2010 and 2020.

4. RESULTS AND DISCUSSION

This article seeks to explore how important is entrepreneurial orientation for family businesses. As confirmed by our review, entrepreneurial orientation is important in the entrepreneurship field, and family businesses will become an important source for entrepreneurial activity. Furthermore, entrepreneurial orientation should be maintained through the family generations. The findings of the study enhanced our understanding of entrepreneurial orientation and the family business, characteristics and

relationships, and transgenerational entrepreneurship differences and challenges.

The review has shown limited number of *recent* articles and references to: firstly, entrepreneurial orientation and the family business for developing nations, regions and the BRICS (Brazil, Russia, India, China, South Africa) countries; and secondly, the succession rate (overall) of family businesses to the second-, third- and fourth-generations, and which exclude a specific country, region and/or developed nation. We also found that the focus of most literature was on the United States, Europe (De Massis et al., 2012; Cortés & Botero, 2016), United Kingdom, and some parts of Asia. Newbery et al. (2017) endorse the view that entrepreneurial behaviour should also be studied from a non-Western perspective.

We noted that consistent family leadership creates a climate that favours entrepreneurial orientation (Lumpkin & Dess, 2013). It was found that the entrepreneurial orientation effects on the family business are unclear (Chirico et al., 2011; Cruz & Nordqvist, 2012) and entrepreneurial orientation is not well understood (Kellermanns et al., 2008; Casillas & Moreno, 2010; Casillas et al., 2010). Previous research has shown that family members in later generations need entrepreneurial and managerial skills (Chirico & Salvato, 2008; Berrone et al., 2012) to exploit entrepreneurial orientation opportunities. Our results confirmed that family business members' entrepreneurial activities are hampered by the family and the business combination (Nordqvist & Melin, 2010; Cabrera-Suárez et al., 2014; Revilla et al., 2016). Moreover, higher levels of conflict may be experienced (Madison et al., 2016; González-Cruz & Cruz-Ros, 2016) which influence business performance (McKelvie et al., 2014; Glowka et al., 2020).

Our study supports some earlier findings that the dimensions of proactiveness, risk-taking and innovativeness are important for entrepreneurial orientation in the family business (Chirico et al., 2011; Revilla et al., 2016). Proactiveness creates change (Charupongsopon & Puriwat, 2017). Furthermore, a positive relationship was found between the performance of the business and proactiveness (Bature et al., 2018). The review confirmed that entrepreneurial risk-taking is complex (Zahra, 2013), definitions vary, and are loosely defined (Zahra, 2018). It was found that family businesses are risk-averse, due to concerns about reduction in family wealth (PwC, 2014), and risk aversion exists among later family generations (Lumpkin & Dess, 2013). Our review has shown that risk-taking is essential to develop entrepreneurs and to sustain the family legacy (Daniell & Hamilton, 2010). As confirmed by recent research, risks might become opportunities, if they are identified and understood at an early stage (Eshima & Anderson, 2017). We have noted a lack of research on the processes and activities regarding innovation in the family business (Feninger et al., 2018). Family businesses have shown a higher ability of engagement in innovation processes than non-family businesses. They have also shown a lower willingness to be involved in innovation (Chrisman et al., 2015). Family businesses have a fear of innovation (Rondi et al., 2018), invest less in innovation (Small Business Charter, 2017; Deloitte, 2019) and lack exposure to innovative ideas (The Family Business Consulting Group, 2020). Our findings are consistent with previous literature stating that the dimensions of innovativeness and proactiveness are important for the business to survive in a changing and competitive market environment (Covin & Wales, 2012; Covin & Miller, 2014; Acar & Özşahin, 2018).

Our review has shown that entrepreneurial orientation is greater at the founder stage (during the first generation), and it decreases through the family generations (Kellermanns et al., 2008; Cruz & Nordqvist, 2012). It was also found that entrepreneurship and risk-taking are motivators for the first generation (Daniell & Hamilton, 2010). Second-generation members feel overshadowed by strong founding personalities (Institute for Family Business [IFB] Research Foundation, 2019). The review revealed that risk avoidance is a motivator for the second generation (Daniell & Hamilton, 2010). Family members find it difficult to define the family legacy during the handover from the second- to the third generation (Daniell & Hamilton, 2010). It was also found that power tensions and politics between the different branches of the family influence the business during the third generation which has proved to be a constraint for entrepreneurial orientation in the family business (Cruz & Nordqvist, 2012). Managerial skills to exploit entrepreneurial orientation opportunities characterise third- and later family generations (Cruz & Nordqvist, 2012). Furthermore, fourth-generation owners may disagree on various matters, such as e.g. on risk-taking (Daniell & Hamilton, 2010). Our study complements previous research, namely that families should maintain entrepreneurial orientation in the business when moving through different generations as generations bring new perspectives to the business (Glowka et al., 2020).

Our review has supported that an important objective of family business management teams is the wealth of the family (Michael-Tsabari et al., 2014; Zellweger, 2017). Family business leaders should maintain a business climate with a strong entrepreneurial orientation and spirit. We concur with the idea that family business

owners in successive generations should increase their entrepreneurial drive and orientation to sustain the generation and the family into the future (Lussier & Sonfield, 2010; Eddleston et al., 2013). Finally, we concur that family members should preserve an entrepreneurial spirit, culture and mindset over time as the unique culture of the business can change due to the history of the family, and the legacy of the founders.

5. CONCLUSION AND IMPLICATIONS

Using a literature review, the purpose was to explore entrepreneurial orientation within a family business context. The central research question was: How important is entrepreneurial orientation for family businesses? The results of the review are clear evidence that entrepreneurial orientation is important for the entrepreneurship field. Family businesses will become an important source for entrepreneurial activity, and the family business should maintain entrepreneurial orientation through the family generations.

Drawing on the literature review, our study has some implications that may be of interest and relevance for entrepreneurial orientation and the family business. We recommend that families should demonstrate an entrepreneurial orientation towards business activities. It mobilises the knowledge that exists within the family business. Consistent family leadership creates a climate that favours entrepreneurial orientation. Family members from the next generation should be involved in the business and be allowed the space and encouragement to foster entrepreneurial developments. Furthermore, a business should determine the success and/or failure of entrepreneurship orientation and how to address these

challenges. Politics and power tensions should be limited within the family business, as they constrain entrepreneurial orientation. We also propose that entrepreneurial orientation opportunities should be exploited by family members who should develop their entrepreneurial spirit and mind-set. It will sustain the generation and the family into the future.

The proactiveness of family members, specifically, should be enhanced, as it can pull resources together to satisfy market needs. Furthermore, family businesses should foster an entrepreneurial risk-taking culture and expose family members to innovative ideas from other industries and outside the business. We advise the family members to discuss risk-taking for both past and prospective successes/failures. Wright et al. (2016) highlight that the risk propensity of the family should be supported to develop a 'fit' between the commitment from family owners and decisions around entrepreneurship. We also propose that family business employees should be recruited and developed to promote entrepreneurship and innovation.

The study enhances our understanding of entrepreneurial orientation for the family business. Several theoretical contributions were made to the literature. For future research, we propose that the entrepreneurial orientation of family businesses in developing areas/countries be investigated. Also, future research could focus on some other dimensions of entrepreneurial orientation such as change, or adaptation, and the family business. Furthermore, differentiate the risk-taking and innovation of the family business from those of the non-family business, as Meroño-Cerdán et al. (2017) highlight that factors such as risk perceptions and transgenerational entrepreneurship influence these processes.

In summary, this article provides some insights for the owners/managers of family businesses, including educators and scholars interested in entrepreneurial orientation of the family business. The results of our review provide evidence that entrepreneurial orientation is an important concept, and family businesses will become an important source for activities in the entrepreneurial field. Family businesses should maintain entrepreneurial orientation through the different family generations and should preserve their entrepreneurial culture, spirit and mindset to sustain the generation and the family into the future.

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KOLIKO JE PODUZETNIČKA ORIJENTACIJA VAŽNA ZA OBITELJSKA PODUZEĆA?

Sažetak

Cilj ovog rada je istražiti koliko je poduzetnička orijentacija važna za obiteljska poduzeća. Poduzetnička orijentacije je značajan concept u području poduzetništva i treba je održavati kroz više generacija u obitelji. Proaktivnost, preuzimanje rizika i inovativnost predstavljaju bit poduzetničke orijentacije, dok je broj generacija uključenih u poslovanje utjecajna varijabla, povezana s poduzetničkom orijentacijom. Provedena je preliminarna i konceptualna studija opisanog problema. Iako je preuzimanje rizika ključno za razvoj poduzetništva i održavanje obiteljske tradicije, obiteljska poduzeća su nesklona riziku, s obzirom na zabrinutost za smanjenje obiteljskog bogatstva. Poduzetnička orijentacija može biti snažna u fazi osnivanja poduzeća, ali se smanjuje, kako poduzeće prelazi u ruke članova novih generacija. Poduzetničke bi obitelji trebale imati poduzetničku orijentaciju prema poslovnim aktivnostima, s obzirom da ista pruža viziju, potrebnu za mobilizaciju znanja u obiteljskim poduzećima. Da bi se stvorila klima, koja podupire poduzetničku orijentaciju, potrebno je snažno i konzistentno obiteljsko vodstvo, a obitelji bi trebale razvijati poduzetnički duh i orijentaciju, koje mogu i u budućnosti održati trenutnu generaciju, ali i obitelj u cjelini.

Ključne riječi: *poduzetnička orijentacija, obiteljsko poduzeće, proaktivnost, preuzimanje rizika, inovativnost, međugeneracijsko poduzetništvo*