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The growth of business groups by habitual entrepreneurs: the role of entrepreneurial teams

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ABSTRACT

This paper reports the analysis of case studies of portfolio entrepreneurs, which suggests that one of the main reasons for the formation and expansion of business groups is the need to create an entrepreneurial team, which is achieved by giving minority shares in the new ventures to others, mainly former employees. This enhances entrepreneurs' ability to grow and diversify the businesses under their control without compromising his or her ownership control of the overall business group. The paper identifies and discusses the different types of entrepreneurial teams developed by portfolio entrepreneurs: joint ventures with established entrepreneurs, employee involvement and intrapreneurship. The latter two types are specifically interesting in studying situations where there is a dominant entrepreneur and associate entrepreneurs. The paper enhances theoretical and empirical understanding of how growth is achieved in the small firms sector through business group formation, and sheds insights into how entrepreneurial team dynamics operate in multiple-business contexts.

Keywords: Business groups, entrepreneurship, entrepreneurial teams.
JEL: L25, L26

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1. INTRODUCTION

Since the 1990s entrepreneurship researchers have become increasingly interested in 'habitual entrepreneurs', i.e. entrepreneurs who repeatedly set up businesses[1]. In this study we focus on 'portfolio entrepreneurs', who are habitual entrepreneurs who retain ownership and control of previously established businesses, leading to the formation of business groups (Rosa, 1998; Westhead & Wright, 1998b). A business group is a set of businesses which are legally distinct, but belong to the same person or people. The two concepts, portfolio entrepreneur and business group, refer to the same phenomenon but from different perspectives. The business group refers to the set of businesses owned by the same entrepreneur, while the portfolio entrepreneur refers to the person owning a set of businesses or a business group.

The interest in portfolio entrepreneurs and business groups has been motivated by several factors. First the phenomenon is more widespread than generally recognized and has been somewhat overlooked in the entrepreneurship literature (Wright, Westhead, & Sohl, 1998; Carter & Ram, 2003). Second, the development of new ventures by established entrepreneurs is as important for job creation and innovation as the entry of 'novice' entrepreneurs (Storey, 1994; Zahra, Neubaum, & Huse, 2000). Third, the need to focus on entrepreneurs' careers to understand entrepreneurial processes (Scott & Rosa, 1996; Westhead & Wright, 1998b).

Business groups traditionally have been associated with large firms, and there is a significant body of literature on the nature, management and performance of large business groups (Goto, 1982; Khanna & Palepu, 2000; Morck & Yeung, 2003; Chang, 2006). However, owning more than one business is also relatively common in the small business sector (Birley & Westhead, 1993; Rosa, 1998). Research shows that there is a steady increase in the incidence of multiple business ownership as firm size increases (Rosa & Scott, 1997; Loiseau, 2001; Iacobucci, 2002). This suggests that the formation and expansion of a business group might be a common way to grow a small firm. Business group formation is associated with successful entrepreneurs who have been in business for some time (Rosa, 1998; Lechner & Leyronas, 2009). This implies that the roles and functions of business

[1] See the special issue dedicate to this theme by Entrepreneurship Theory & Practice vol. 22 n. 4, 1998, and the review about the subject recently completed by Ucbasaran *et al.* (2008).

groups may differ between the small and large firm sectors. They may be associated especially (but not exclusively) with entrepreneurial processes in small firms, and management governance related processes in large firms.

Despite the wealth of empirical and theoretical insights offered by the literature on habitual entrepreneurs, analysis of the entrepreneurial processes involved in the formation of business groups by habitual entrepreneurs is still at an early stage (Carter & Ram, 2003). Theoretical and empirical studies of habitual entrepreneurs fall into two broad categories. The first is mainly concerned with exploring the differences between novice and habitual entrepreneurs in terms of their personal characteristics, the gestation process, the features of the new ventures, etc. (Kolvereid & Bullvåg, 1993; Wright, Robbie, & Ennew, 1997b, 1997a; Alsos & Kolvereid, 1998; Westhead & Wright, 1998a, 1998b; Ucbasaran, Wright, & Westhead, 2003). The second focuses on the characteristics of business groups brought about by the activity of habitual entrepreneurs. These studies examine the nature and processes underlying the setting up of new companies by established entrepreneurs and the characteristics of the resulting groups (Rosa, 1998; Rosa & Scott, 1999). The approach in this paper is within this latter category.

Two issues seem specifically relevant. The first is the direction of growth followed by portfolio entrepreneurs in creating new ventures and the reasons for developing a new business rather than incorporating expansion within an established firm. For example, there are significant administrative costs involved in establishing a separate, new company - why not just grow within an already existing unit? The second is related to the entrepreneurial team dynamics, since the development of business groups often involves a presence of other people playing an entrepreneurial role. The tendency to focus on the 'habitual entrepreneur' tends to mask the role potentially played by other actors in the establishment of new businesses.

This paper focuses on the role of entrepreneurial teams in the formation and dynamics of business groups. This issue seems relevant since the more a group grows, the more a portfolio entrepreneur will be forced to delegate or seek help through partnerships. It has been observed for some time in the entrepreneurship and small firms literature, that the inability of the entrepreneur to delegate is a major barrier to the growth of small firms (Steinmetz, 1969; Greiner, 1974; Churchill & Lewis, 1983; Storey, 1994). This, however, is usually only conceptualised within the context of a single firm. The stress in this literature is often negative (stressing why delegation does not take place), rather than positively exploring good practice where the entrepreneur has clearly succeeded in delegating. The literature on

entrepreneurial teams also focuses on the dynamics of multiple ownership and control within single firms (Forbes, Borchert, Zellmer-Bruhn, & Sapienza, 2006; Harper, 2008), but the potential intricacies of team building over a range of firms has not been explored yet.

Given the small number of empirical and theoretical studies on these issues, this paper is exploratory in its design and aims. It relies on in-depth interviews with established entrepreneurs to provide some insights into these issues and develop theoretical propositions that can be applied in future studies. The paper is organized as follows. Section 2 introduces the main issues addressed in the empirical part of the paper. Section 3 presents the research methodology; Section 4 analyses the case studies and develops some general propositions related to the observed phenomena. Section 5 discusses the main results and propose a theoretical framework to explain the presence of groups in the small business sector. Section 6 presents the main conclusions and suggests some implications from this study.

2. BUSINESS GROUPS AS ENTREPRENEURIAL SYSTEMS

Business groups (and portfolio entrepreneurs) are widespread in all countries, industries and firm size classes (Rosa & Scott, 1997; Loiseau, 2001; Almeida & Wolfenzon, 2006; Cainelli & Iacobucci, 2007). Despite this, little empirical and theoretical work exists on small groups; most of the literature on business groups relates to large firms, particularly conglomerates with highly diversified portfolios of businesses (Shiba & Shimotani, 1997). Business groups are supposed to occur most frequently and most profitably in emerging economies with significant market information asymmetries (Khanna & Rivkin, 2001; Yiu, Bruton, & Lu, 2005; Silva, Majluf, & Paredes, 2006). There is a growing recognition of the advantages of the business group as an organizational form that facilitate mutual insurance amongst the affiliated firms and enable risk to be shared. Empirical research, however, has failed to fully substantiate these theories and "other reasons are more likely to explain the ubiquity of business groups round the world" (Khanna & Yafeh, 2005, p. 301).

The justification for the presence of business groups in developed countries is that they are a device for separating *control rights*, which remain in the hands of the controlling family, from *cash flow rights*, which are shared with the non-controlling owners (Morck & Yeung, 2003; Morck, Wolfenzon, & Bernard, 2005). This separation is achieved better when companies are listed on the stock exchange, and the non-controlling owners are represented by a large number of minority shareholders. However, this explanation is valid for only a tiny minority of large groups (Franks & Mayer, 2001; Faccio & Lang, 2002) and cannot account

for the spread of family-owned, small groups where there is little or no separation between ownership and control.

Almeida and Wolfenzon (2006) develop a model to explain the presence of business groups in family-owned firms. The starting point of their work is their dissatisfaction with the argument related to separating ownership and control. As they point out: 'Despite the ubiquity of pyramidal business groups, no formal theory explains their existence. A traditional informal explanation argues that pyramids are formed to allow a family to achieve control of a firm using only a small cash flow stake' (Almeida & Wolfenzon, 2006, p. 2638). The basic idea behind Almeida and Wolfenzon's (2006) model is that business groups are used by entrepreneurs to manipulate the ownership structures of new businesses to maximize their financial wealth. The legal autonomy of the new business gives the entrepreneur the opportunity to raise outside equity to finance new ventures. The term 'outside equity' refers to equity raised from people other than the entrepreneur's family. The term is commonly used in the finance literature to refer to equity capital supplied by investors who are not directly involved in the management of the business, i.e. who are purely financial investors (Fama & Jensen, 1985; Myers, 2000). In the Almeida and Wolfenzon (2006) paper it is taken for granted that the 'entrepreneur' retains control and management of the new business and that the minority shareholders are purely investors with no involvement in management. We suggest that this is a major limitation of the model; in the case of small groups (and small firms in general) the inclusion of minority shareholders is unlikely to be for purely financial reasons because of the high level of agency costs involving outside equity in privately held companies (Jensen & Meckling, 1976; Chrisman, Chua, & Litz, 2004). Ownership of small firms commonly involves relatives or partners, who are also directly involved in their management.

The Almeida and Wolfenzon (2006) paper is a theoretical study and the authors make no attempt to verify their conclusions empirically. Little empirical research exists on how business groups form, and how they form in the small business sector (Rosa, 1998; Lechner & Leyronas, 2009). Are the processes the same for large and small firms, or there are radical differences in the nature of business groups in the large and small firm sectors? How far can business groups be considered the result of entrepreneurial processes rather than a device to efficiently manage a portfolio of businesses or to maximize the financial wealth of the controlling family?

Assessing the role of entrepreneurship in business group formation entails analysis of the relationship between the setting up of new companies by habitual entrepreneurs and the

processes of opportunity identification and new venture creation. In a recent review of the literature on small firm growth, Macpherson and Holt (2007, p. 184) note that there are research gaps in the factors that explain the adoption and/or usefulness of specific systems of organizing, and the impact of these systems on firm growth. We know very little about why portfolio entrepreneurs decide to pursue growth through founding new companies rather than accommodating growth and diversification in the existing firm (Wiklund & Shepherd, 2008). Given that the new businesses set up by portfolio entrepreneurs are often closely related to the established ones (Iacobucci, 2002) conventional management theory would suggest related diversification to be more likely incorporated within the established firm, rather than used to spawn a new one.

Also important is the relationship between business group formation and the development of entrepreneurial teams. It is being acknowledged increasingly that the entrepreneurial activity is normally a team responsibility rather than being down to a single person (Gartner, Shaver, Gatewood, & Katz, 1994; Cooper & Daily, 1997). By an entrepreneurial team we mean a group of people who share the ownership and management of a new venture (Kamm & Nurick, 1993; Watson, Ponthieu, & Critelli, 1995; Cooney, 2005). Although there are more general definitions of teams in business activities, we think that ownership and management are essential aspects for defining entrepreneurial teams and it is in this sense that we apply it in this paper.

The relationships between team dynamics and business group formation has received little attention at either a theoretical or an empirical level. The entrepreneurship literature treats entrepreneurial activity mostly as being initiated by the owner-manager(s), either as individuals or, in the case of family firms, by family owners. Employees are treated as agents of implementation. In the corporate entrepreneurship literature, however, it is the employees (the intrapreneurs) who play a major role in initiating new ventures, often in the face of opposition from their employers (Zahra, Jennings, & Kuratko, 1999). The groups examined in the present study are medium-sized groups, in which both types of phenomena could be expected to be operating.

In reality all these dimensions (entrepreneur, family members, employees, external partners in joint ventures), can form complex team interactions. A major issue is whether entrepreneurial teams confer advantages or disadvantages in helping to grow a business group. There may be circumstances where the need to delegate and acquire new managerial capacity can be greatly enhanced with the right entrepreneurial team in place; or where the right partnership may be vital to enable the exploitation of an opportunity requiring a blend of

skills and resources (Forbes *et al.*, 2006). In the long term this can lead to an efficient constellation of companies run semi-autonomously so that the entrepreneur can concentrate on new ventures (Rosa, 1998).

This paper thus explores the role of entrepreneurial processes and team dynamics in the formation and evolution of small business groups. No specific hypotheses or propositions are suggested at this stage of the paper, but they emerge as evidence is analysed and discussed. It is thus an inductive approach to a little studied phenomenon.

3. DATA AND METHODS

Unless a great deal is known about the theory of a particular phenomenon, or the measures are straightforward and capable of rigorous measurement, applying a theory driven deductive approach can be counterproductive and premature (Creswell, 2009). As growth through business group formation in small firms is a subject that has received little attention, as discussed earlier, a more exploratory approach is preferable. We favour one in which insights are sought, rather than embarking straight away on a deductive approach based on the rigorous falsification of hypotheses. Business group formation is also a process that evolves over time, sometimes a long period of time. Cross-sectional quantitative surveys and questionnaires are thus not the most appropriate approach. Ideally such research would require a longitudinal research design in which a series of portfolio entrepreneurs are monitored over a period of years. In the absence of such a dimension in the research, insights are gained from interviews of retrospective events. In depth interviews was carried out with portfolio entrepreneurs that developed a business group. We were interested in particular, in information about group origins, the circumstances surrounding the growth process, the reasons for starting up new companies, the problems encountered and how these were overcome, and the entrepreneurial dynamics of the establishment and development of groups. Our interviews were based on a semi-structured questionnaire that included questions on five main topics: the beginning of the entrepreneurial activity; the growth strategy followed after establishment of the original activity; the reasons for developing new businesses and setting up new companies; whether other members of the entrepreneurial team played a role in these processes; the present structure of the group. The interview guide is provided in the Appendix. We chose a semi-structured interview because of its flexibility and our desire not to impose a predefined pattern of analysis on the interview results. We also wanted the

entrepreneur to give her/his account of how the group was formed, rather than choosing among suggested explanations.

Interviews were held at one of the company locations of the entrepreneur being interviewed. In a few cases a follow up interview was conducted to clarify certain points or to collect additional data. The interviews were recorded (in digital format) and transcribed into word-processed documents for analysis. The transcripts were transferred to QRS NVivo to facilitate the process of coding. First, we coded the text according to pre-defined topics that we considered relevant in terms of the issues we wanted to analyse. Other topics that emerged in the interviews were added. Finally, we rationalized the topics by merging ones that expressed similar concepts and relating groups of topics under general categories[2]. The coding process relied not just on applying preconceived categories, but also on incorporating themes that emerged. For example, at the beginning, the coding process concentrated on the events that resulted in the formation and development of the group: i.e. the setting up or acquisition of new businesses and the relationship to the original company (see Figure 1).

Insert Figure 1 about here

Other nodes and relationships between them were added as the analysis of the interviews progressed and new topics and themes emerged from them. One of the most interesting themes emerged from the interviews was the involvement of other people in playing an entrepreneurial role within the group; this resulted in the tree node showed in Figure 2.

Insert Figure 2 about here

Other nodes refer to the reasons expressed by entrepreneurs for setting up or acquiring new companies, the involvement of other people in the entrepreneurial team, and so on. Labels used for the nodes and the relationships between them do not necessarily coincide with the expressions used by entrepreneurs; they have been chosen as a useful way of abbreviating the descriptions of each topic and grouping the different cases into meaningful categories.

As is common in qualitative analysis, purposive sampling rather than statistical sampling was used (Silverman, 2000, p. 104; Bryman, 2001, p. 324), in order to discover and identify new variables, or relationships between variables, that previously were either unknown or poorly understood. Our sampling method was designed to cope with

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[2] The interviews were recorded, transcribed and analyzed in Italian, and subsequently written up in English. Both authors are fluent in both languages.

heterogeneity rather than what is typical. Interviewees (entrepreneurs) were chosen from the population of small and medium-sized manufacturing groups located the Marche region (Italy). We selected cases that were relevant for the aims of the study and which showed some diversity in terms of industry sector. The selection criteria we applied were:

a) group founded and still controlled by the entrepreneur interviewed;

b) the group comprises at least two manufacturing companies;

c) group companies are new ventures not acquired businesses;

d) the group is small or medium-sized, i.e. less than 500 employees overall.

These selection criteria let to some 30 groups being identified. The results reported here refer to 14 groups whose entrepreneurs agreed to be interviewed. The small number of case studies analysed is not a limitation in terms of the objectives of our analysis; as our interview programme progressed, we became confident that we had identified all the main issues and that the information value of further interviews would have been very small. Although located in a specific region the groups that we selected show similar characteristics to those observed at the national level (Cainelli & Iacobucci, 2007). Moreover, comparison between the groups examined in this study and cases in other countries (Rosa, 1998; Loiseau, 2001; Lechner & Leyronas, 2009) shows that there are noticeable similarities in their structure and dynamics. This suggests that most of the empirical findings from this research, and the theoretical hypotheses developed to synthesize the main results, are not sector or country-specific.

Table 1 presents some general characteristics for the groups interviewed. In most cases the entrepreneur established the first company during the 1970s, and new companies were added during the 1980s and 1990s. The relatively slow growth rates observed can be related to the fact that they all are family-owned groups, whose expansion was mainly self financed.

"Insert Table 1 about here"

Companies belonging to business groups fall into three broad categories (Iacobucci & Rosa, 2005): foreign companies (if present); financial companies (e.g. holding companies, property companies, etc.); and production domestic companies, operating in the manufacturing or the service sector. The category of foreign companies is not relevant for this study given that, by law, they must be managed as independent legal units. Financial companies are normally set up for fiscal or other financial reasons and are not directly involved in production or services. Thus, our analysis includes only production domestic

companies. Apart from being the main companies in terms of employees and sales, domestic companies are especially interesting in terms of understanding the reasons why habitual entrepreneurs set up new legal units rather than developing new ventures within established companies. Our sample, mostly manufacturing companies, includes groups with at least two domestic companies.

4. RESULTS

This section discusses results on the development of the business groups from the start date of the original venture, the reasons for establishing a group of companies and the circumstances surrounding their establishment.

The setting up of a new company by a portfolio entrepreneur is associated with the start-up of a venture that has some degree of diversity from the established business(es). Several studies demonstrate that firms tend to diversify in activities with high degrees of relatedness or coherence with existing activities (Teece, Rumelt, Dosi, & Winter, 1994; Breschi, Lissoni, & Malerba, 2003). This applies especially to small firms, although this observation needs corroboration, as there is little empirical evidence on diversification strategies in the small firm sector (Lynn & Reinsch, 1990; Robson, Gallagher, & Daly, 1993; Sandvig & Coakley, 1998; Macpherson & Holt, 2007). Although diversification is a common motivation for the establishment of a business group by portfolio entrepreneurs, it is mostly related diversification, through which the habitual entrepreneur expands control in activities closely connected to his or her original idea (Rosa, 1998; Iacobucci, 2002). This also applies to the entrepreneurs interviewed. The new businesses set-up by the portfolio entrepreneurs were generally closely connected to the original one, often addressing different segments of the same market (see Table 1). Interesting cases of related diversification can be considered cases #2, #6 and #7.

Case #2 set up its original business for the production of starter batteries for cars. After setting up another business for expanding the original business in other segments of the battery market, the entrepreneur set up a new company producing electric vehicles, such as scooters and small cars, that use batteries supplied by the original company (see Figure 3).

Insert Figure 3 about here

In case #6 the entrepreneur started in 1968 as a self employed enterprise, carrying out domestic electrical installations. In 1975 he started a small company that grew in the local market for industrial installations, reaching 120 employees at the beginning of the Eighties. In 1978 the entrepreneur set up another company for applications in the promising sector of electronics. At the beginning the company produced printed circuits for household appliances, but after a few years the entrepreneur realized that customers needed to improve the control of the products along the production lines and in 1982 the company started producing in-line control systems for washing-machines. The success of this first application brought about new orders and the company gradually shifted its production from electronic components to automated in-line control systems for several types of manufacturing processes. At the end of the eighties the new company surpassed in size the original one. In 1992 the entrepreneur started a new company with the aim of providing services (such as R&D) to the other two companies as well as selling its services to the market (see Figure 4) .

Insert Figure 4 about here

Case #7 experienced the wider spectrum of related diversification from its original activity, publishing. The original company was founded in 1972 and remained a small company, specialized in publications for foreign language teaching. A few years later the entrepreneur set-up a printing company that only in part works for the publishing company while making most of its turnover by selling to external markets. Another two companies were set up during the eighties, both within the publishing and printing sector: one prepares materials for printing companies and the second offer advertising services. Both works for the other companies of the group but also for other customers as well. A notable diversification was the set up of a cartoon company at the end of the nineties. The cartoon series produced by the new company was an immediate success. This company is now the largest of the group in terms of sales and by far the most profitable one. The entrepreneur later created a holding company through which he holds the shares of the other companies (see Figure 5).

Insert Figure 5 about here

Besides the above mentioned cases most of the new businesses were set up by entrepreneurs to address different segments of the market in which they originally entered. Given the increasing segmentation of markets, the expansion in different segments represents

one of the most important ways through which firms grow. Apparently, the degree of diversification is low as the different businesses all belong to the same industry. Nevertheless the traditional way of considering diversification underestimates the fact that in most cases to enter a new market segment implies modifications in the firm's activities not inferior than those arising from conventional diversification (Iacobucci and Rosa, 2005).

Also in quantitative terms, as well as for the direction of growth, we observed different patterns in the groups examined. In some cases (#1, #3, #8, #10, #11) the original company remained the largest company in the group while in others cases the new businesses were very successful and surpassed the original one in size. At the time of the interviews, the ratio between the overall employees of the group and the employees in the original company ranged from 1.2 in case #1 to 4.8 of case #5. The size of this ratio changes according to the measure adopted; employees, capital, sales or profits. We must take into account that the groups examined have different ages and that in some cases the business subsequently set up were merged with the original company (we discuss this aspect later in this section). However, in all the cases the set up of new businesses significantly contributed to the growth of activities under the control of the entrepreneur. Given the aim of this paper we were not much interested in analyzing the quantitative aspects of growth but rather the circumstances that induced the interviewed entrepreneur to develop a group structure rather than growing the original business.

Diversification can be seen as a necessary but not sufficient condition for the creation of a business group, since diversification can be managed through alternative forms of organizations within the same firm. The most important justification in the literature on the creation of new companies is that legal autonomy allows the entrepreneur to change the ownership structure of the new business (Almeida & Wolfenzon, 2006). This appears to be confirmed by our case studies: entrepreneurs normally retain a majority share in the new companies, selling or allocating minority shareholdings to other people. According to the 'financial' explanation (Almeida & Wolfenzon, 2006), this is done to maximize the financial wealth of the controlling entrepreneur. Our findings, however, show that there are other reasons for involving other people in the ownership of new ventures. Other people may be given stakes in the new business not in order to raise outside equity, but to involve them in the management of the new business, thereby establishing or enlarging an entrepreneurial team.

Three different patterns of ownership sharing emerge from the case studies. In the first, a joint venture is established with another entrepreneur, which we term 'entrepreneur

involvement'. In the second, the venture is started by the portfolio entrepreneur who then takes the initiative to involve a vital employee with skills needed to develop the venture. The entrepreneur secures the employee's loyalty and cooperation by giving him or her an ownership stake in the new venture. We refer to this as 'employee involvement'. In the third pattern, the new business is established as a result of the initiative and inspiration of an intrapreneurial employee, who succeeds in engaging the interest and commitment of the owner entrepreneur to start the new venture. The partnership thus formed often leads to a partial transfer of ownership to the intrapreneurial employee in the new venture. We refer to this as 'intrapreneur involvement'. Table 2 shows that 22 of the 35 new companies set up by portfolio entrepreneurs involve some form of ownership sharing, and that all three patterns of ownership sharing described above are frequent.

"Insert Table 2 about here"

We report some excerpts from our entrepreneur interviews that are illustrative of these patterns.

Pattern 1: when a new company emerges as a joint venture with another established entrepreneur.

This case is rather widespread across the groups:

> "…we had *[at the beginning of the seventies]* an important customer in Rome to whom we sold paper rolls for telex. The demand was expanding and we decided to buy a new automatic machine. I talked about the idea to this customer. We went to Germany together to see the machine and we then decided to make a joint venture for this new production".(Case 1).

> "I had always the idea that the future of printing was in rotary press. Then there was an opportunity with an Italian newspaper that wanted to print in the Marche region. We set up a new company in which the newspaper company took the one third and we took the remaining two thirds" (Case 7).

In these and other cases, the involvement of other entrepreneurs was for two main reasons: to raise capital for the initial investment (thus spreading the risk) and to secure demand for the new product. The setting up of a new company was aimed at keeping the new partner separate from the rest of the entrepreneur's assets and companies.

Pattern 2: 'Employee involvement', following the need to develop a venture initiated by the portfolio entrepreneur.

This is the most interesting pattern in terms of its quantitative importance (see Table 2) and its significance for our study. The former employee does not participate in the opportunity discovery phase, but only in the development of the new venture. The following examples belong to this pattern.

> "The new company was set up as a rib of the original company. At the beginning the original company made both moulds and production lines. The two activities could not coexist for technical reasons. Moreover the new company could also work for other customers. The new company was set up in 1990 by associating an employee I trusted and who is now the production supervisor of the new company. I gave autonomy and trust to this employee". (Case 8).

> "Together with printed circuits we began to produce membrane keyboards. It was low technology by our standards. The product was initially developed within the original company at the end of the eighties but never reached large volumes. It was a languishing department because no one was really interested in it. I found an employee who took 10 percent in the new company and who was interested in developing it… It was an activity which already existed in the original company. But if it had remained there it would have died." (Case 9).

> "During the following years the group continuously enlarged its product range to be ready to cover all the needs of its actual and potential customers. In 1975 another company was created... Also in this company minority shares were given to a few technicians who were directly involved in the management of the company. We needed someone we could trust to manage the specialized factories. We thought that involving these people in the ownership of the companies was the best way to get them involved in the management of the companies...." (Case 3)

> "In the [now closed] business of professional training there was a group of 5 people employed in printing. When the business was closed there were two possibilities; selling the printing activity or starting a company to work for external customers. The employees started looking for new customers… We then decided to start a new company. I gave 40 per cent of the ownership to 2 former employees (20% each) who are responsible for the management of the company. At present it is one of the largest printing company in central Italy" (Case 7)

The involvement of former employees in the new companies responds to several - sometimes overlapping – needs. First the raise of additional capital and the spread of risk (Almeida & Wolfenzon, 2006). Second to involve people with specific expertise and competences (Ucbasaran et al., 2008). Besides the above mentioned needs, we suggest that the most important reason to involve former employees in the start up of a new venture is to overcome the entrepreneur's limitations in the availability of time and attention to dedicate to the start-up of the new business while retaining ownership and control of the existing ones. When questioned about this the entrepreneurs interviewed responded that just installing a

manager to be in charge was not good enough. A new venture requires particularly high levels of motivation, interest and dedication. This was combined with a shrewd appreciation of the need to prevent employees establishing the same business in competition and stealing customers. Direct ownership not only made them partners, but ultimately also helped spread risk.

> "This is a design company that we set up at the beginning of the Nineties…. At that time there was a high request of designers by the mechanical companies of our district. We had trained employees that were particularly valuable for the other small firms… we set up a design company. Employees who wanted to resign were offered a share of the new company. The new company worked for us but also for other customers … It was a great idea. We retained the three or four people that wanted to leave and start on their own. It was also a chance for involving other employees, such as the head of technicians… In this way we were able to stop the bleeding" (Case 11)

Pattern 3: where the new venture arises from the activities of an intrapreneurial employee.

In this pattern, the intrapreneurial employee participates actively in the new business from the opportunity discovery phase and the portfolio entrepreneur plays a supporting role (in terms of providing financial resources, market credibility, network relationships, etc.) in the development of the new venture.

> "In the same years *[end of the Seventies]* a young man who was also a friend, employed in one of our companies, suggested we started a commercial activity that he would supervise. At the beginning, my brother and I took 60 per cent and the former employee 40 per cent. For some years this company developed the commercial activity but then this employee champed at the bit and started a production activity for one of our companies … This new company grew rapidly driven on by this former employee helped, financially and commercially, by the group" (Case 4).

> "There was a designer who was employed for some time in a company of the group. He had a difficult character. After some time he resigned and went to France to work for a cartoon firm. I had always wanted to enter the cartoon industry. After a few years he resigned from the French firm and came back to Italy and proposed some ideas to me. I proposed setting up a company together. I gave him 30 per cent of the new company although he did not pay anything in cash" (Case 7).

> "A former employee of our main supplier of plastic material (compound) suggested to us starting a company for producing the plastic material. As we were not satisfied by our suppliers of raw materials (both in terms of quality and price) we set up a new company producing plastic granules for soles. We gave a minority share (25%) to the technician who suggested this new

activity (he was a chemist) and who took the main responsibility in running the company" (Case 3)

In all the above cases the portfolio entrepreneur retained control of the new company, although giving a significant stake to the associate entrepreneur. The latter played the key role both in structuring the new business and in developing it; moreover, the new activity is fully supported by the portfolio entrepreneur and is part of his or her business group. Overall, the interviews show that whatever the nature of the associated entrepreneur, established entrepreneurs or former employees, the development of an entrepreneurial team to exploit a new business opportunity is one of the most important reasons for organizing the new venture as a separate legal entity, thus forming or enlarging a business group.

The setting up of a legal independent company is especially important in the new venture creation phase. This was expressed very clearly by one entrepreneur:

> "The logic behind these new companies is as such: [the original company] experiments on new activities and new products. As soon as it sees that the latter are promising business a new company is set up with the aim of developing the new activity. This is done because it is possible to create a healthy competition between the different activities, motivating people responsible for them to produce more and better. At the same time the relative performance of the different activities are more easily measurable and comparable. For a new business you need a new, focused, organization". (Case 2)

The development of a group of companies and the enlargement of the entrepreneurial team is carried out by portfolio entrepreneurs to support new venture creation. Once the ventures have been developed, the focus is on rationalizing the management of the established businesses. In some cases this may mean a merger of part or all of the companies in the group. In two of the cases we examined (cases 3 and 8), following the establishment of a group of companies, the portfolio entrepreneurs decided to merge most of the companies and to transform their groups into multidivisional companies. This was motivated by achievement of greater managerial efficiency.

> "In 1989 we decided to rationalize the group … and decided to merge the different companies. Notwithstanding the merger, from an operative point of view the factories remained autonomous. Specialization was retained at the level of production units." (Case 3)

> "In 2003 we decided to merge all these companies *[those production units operating in the same sector: i.e. industrial automation]*. Within the new company we created four divisions that reproduce the specialization of the merged companies." (Case 8)

The collapse to a divisional organization is less likely when the group has been developed through the enlargement of the entrepreneurial team, given the reduced autonomy and motivation of the associated entrepreneur who is now managing a division rather than an independent company. Also, the existence of minority shareholders in the companies forming the group would also create problems in determining the values of shares of the merged companies.

Although the portfolio entrepreneur may play a variety of roles in the individual companies of the group, in terms of the group as a whole, he or she retains a ‘dominant’ position. His or her majority share in all the group companies allows the portfolio entrepreneur potentially to intervene at any time in the control of the business, particularly when conflicts of interest occur with associated entrepreneurs. Case 3 provides an example of such a situation. The group was formed through entry into different segments of the same market (footwear soles) and by integrating activities along the production chain (production of a plastic compound). In each of these companies there were different minority shareholders that helped the entrepreneur in the start-up of the new companies. Once the companies were operating successfully, the entrepreneur decided to merge most of them although not all the minority shareholders were in agreement with this strategy. The minority shares in the individual companies were transformed into minority shares in the merged company, but one of the original minority shareholders decided to exit from ownership of the group.

> “We merged the different companies to avoid a possible conflict of interests between shareholders, as there were complex buying-supplying relations between companies. We made the valuations of the different companies and determined the exchange rates between shares. All the shareholders of the different companies became shareholders of the merged company... The shareholder who had 25 per cent of one company [producing plastic compound] became a 8 per cent owner of the merged company. He did not agree with the merger as the activities of the compound business were growing faster than the other businesses of the group. Eventually he sold his share in the group” (Case 3)

Difficulties within the entrepreneurial team occurred in other cases where the original business was founded by more than one entrepreneur. In cases 5 and 13 the founders were two brothers; in case 12 they were two close friends. This resulted in the presence of two

dominant entrepreneurs within the same group. In all the three cases the group was eventually broken up, and the two entrepreneurs involved took control of the different parts.

> "My brother is a good person and is very clever at doing things by himself. For this reason he does not like delegating. At the end of the nineties we had about one hundred employees and had good prospects of entering foreign markets. We made a commercial agreement with a large company in northern Italy but we were unable to serve it adequately because we retained an artisan rather than industrial philosophy … [At that time] the main business was customized furnishings [for bars]; the other business [standardized ice cabinets] was considered as subordinate to the main one. My vision was the opposite, to keep the artisan production as a support for the industrial products … The reason for separating was a different business philosophy. Besides this there were also disagreements on the ways family members should be involved in managerial positions… Eventually we came to the point where we decided to separate and each of us took one of the companies" (Case 13).

The problems that can arise if there are two dominant entrepreneurs in the same group is further evidence that a business group in the small business sector should be considered as a whole, subject to a unique vision and strategy, rather than a portfolio of different businesses.

5. DISCUSSION OF RESULTS

The empirical analysis based on direct interviews with portfolio entrepreneurs highlighted several aspects, such as the importance of entrepreneurial team development, that have been underestimated by the literature on business groups, or provide an alternative explanation for an already observed phenomenon, such as the presence of external shareholders in new companies.

Figure 6 synthesizes the main results of the empirical analysis by highlighting the role of entrepreneurial team development in business group formation.

"Insert Figure 6 about here"

Building an entrepreneurial team is not the only reason why a portfolio entrepreneur may decide to organize a new venture as a separate legal entity. Other commonly cited reasons are the need of focussing resources in the new business and allowing a better control of the performance; however, the latter aims can also be achieved by dedicating a new organizational unit within the established firm. The main difference between the two modes

of organizing the new venture is that a new legal unit allows the portfolio entrepreneur to modify the ownership structure of the new venture. The results of the interviews demonstrate that this is an important reason that must be given adequate theoretical explanation. This section develops some theoretical propositions to explain the phenomenon of entrepreneurial team development by portfolio entrepreneurs and discusses the implications of our findings for the actual debate on firm growth and entrepreneurial team dynamics.

The fundamental process in business group formation in the small business sector is new venture creation by established entrepreneurs. It is a process of enlarging the business controlled by the same entrepreneur, which is different from the more frequently studied process of growth of individual firms. Whether the former results in the setting up of new companies as opposed to divisions within an established firm, depends on two main features. First, the degree of diversification from already established businesses. Second, the need to involve other people in the ownership of the new venture. The results of our interviews show that the presence of minority shareholders is motivated by the need to involve other people in the management of the new business rather than just raising outside equity as suggested by the financial explanation (Almeida & Wolfenzon, 2006).

This seems to contradict the hypothesis that portfolio entrepreneurs have an advantage on recognizing and exploiting new business opportunities based on the learning and human capital accumulated through their entrepreneurial activity (Ucbasaran et al., 2003; Macpherson & Holt, 2007; Ucbasaran, Westhead, & Wright, 2007). We suggest that other theoretical models of habitual entrepreneurs may help to explain the evidence observed. These models rely on the idea of individual specialization (Kihlstrom & Laffont, 1979; Holmes & Schmitz, 1990) and the problems arising from the limited time and attention that entrepreneurs can dedicate to the setting up of a new business while running the established ones (Gifford, 1998a). Some studies refer to this problem (Rosa, 1998), but it has been substantially overlooked by much of the literature on portfolio entrepreneurship. When a new business opportunity arises portfolio entrepreneurs must decide how to share their time and attention between managing the established businesses and exploiting this new business. This is not a trivial problem since the start-up of a new business requires a high level of commitment from the people involved, in order to maximize the probability of success. The critical element in exploiting a new business opportunity is not so much its recognition, but its initial development. This is effectively synthesized by Ardichvili *et al.* (2003, p. 113) according to whom: 'While elements of opportunities may be 'recognized', opportunities are made, not found'. Identifying an opportunity is of little value unless there is the possibility to

put the entrepreneurial idea into practice and test its validity (Harper, 2003); this is not a 'one shot' game, but a process that requires dedication and attention in order to adjust the idea to market conditions and maximize its success possibility (Bruyat & Julien, 2001).

For these reasons, when a portfolio entrepreneur is considering the development of a new business opportunity he/she has to choose between two alternatives. First, dedicating the required amount of his/her time to the start-up of the new venture; or second, involving other people in the start-up of the new venture and giving them an entrepreneurial role. In the first case the opportunity cost is represented by the potential problems related to diverting time and attention from the established businesses. In the second case, the main problem lies in choosing the right person to delegate to and persuading him or her to take on an entrepreneurial role in the new venture.

Persons involved in playing an entrepreneurial role need entrepreneurial attitudes and capabilities and must be trusted by the entrepreneur. It is not by chance that among our interviewees, almost all of the people who had been entrusted with such a role were former employees. The employee relationship allows the entrepreneur to evaluate the competences and entrepreneurial attitude of the person and develop the trust required to make him or her a member of the entrepreneurial team (Forbes et al., 2006; Zahra, Yavuz, & Ucbasaran, 2006).

When enlarging the entrepreneurial team involves a former employee, the portfolio entrepreneur draws on two strengths. In the first pattern (employee involvement) the entrepreneur must be able to identify and leverage an employee's entrepreneurial capabilities to manage the start-up phase. In the second pattern (intrapreneurship) the portfolio entrepreneur must be able to accommodate the proposed project within the group. The employee relation allows the entrepreneur to evaluate the entrepreneurial attitude of the employee and develop the trust relationship needed to make him or her part of the entrepreneurial team.

Being part of an entrepreneurial team means involvement in ownership and control of the new venture. The future contingencies associated with the start up of a new business are both innumerable and unpredictable making it very expensive, if not impossible, to write incentive contracts for salaried managers to induce them to perform in an entrepreneurial role (Gifford, 1998b). The way used by portfolio entrepreneurs to create an entrepreneurial team is that of giving to people minority shares in the new business. This has several consequences. First, it makes the person responsible for the outcome of the business. Second, it enhances his or her authority over resource allocation and coordination. Third, it is an incentive for business-specific human capital investment (expertise, contacts, etc.). Finally, it

reduces the risk of associated entrepreneurs 'resigning' their responsibility for managing the business, should results not match expectations. This is done not only to prevent potential loss of specific human capital, but also to reduce the risk that a salaried manager would start a business of his/her own to exploit the new business opportunity once he/she knows enough about it.

The portfolio entrepreneur supports the new business with capital and experience while dedicating to it only a fraction of his/her time. The associated entrepreneur, on the other hand, is completely dedicated to the new business and assumes the main role in its start-up. The existence of a business group, therefore, helps us to understand the dynamics of entrepreneurial teams in situations where there is a 'dominant' or 'lead' entrepreneur and one or more 'associate' or 'sub' entrepreneurs. The few existing theoretical and empirical studies that acknowledge these dynamics refer to individual businesses and do not consider the functioning of teams in a multi-business situation (Ensley, Carland, & Carland, 2000; Harper, 2008).

The portfolio entrepreneur remains the 'dominant' figure in the group; he/she retains a leading position in the original company of the group and majority ownership of all the other companies. However, the portfolio entrepreneur does not necessarily play a 'leading' role in all the new ventures: if there is an associate entrepreneur, then he/she plays the major entrepreneurial role. This division of the entrepreneurial responsibility is often realized under dyadic relations between the dominant and one associate entrepreneur. This makes it possible to differentiate team interactions within the same group based on the circumstances surrounding the start-up of each new business and the role of the dominant and associate entrepreneur in each of them. In this regard, the business group is a flexible organizational structure that accommodates a wide range of team patterns: from the 'hierarchical' model between a lead and a sub-entrepreneur that is observed in 'employee involvement', to the 'tutoring' model that is observed in the case of 'intrapreneurship involvement'.

Although the portfolio entrepreneur may play various roles in the individual companies of the group, and can vary the extent to which 'hands on' management is applied, he or she still retains the dominant position in the group as a whole (Rosa, 1998). Case studies highlight the difficulties that arise when there is more than one 'dominant' entrepreneur within the same group, a situation that happened when the original business was set up as a partnership between family members or friends. In all these cases, the group broke up because of divergent visions and strategies over time, and enlargement of the group.

Not all the entrepreneurs interviewed developed an entrepreneurial team. This is evidence that the group structure is used by entrepreneurs to solve a variety of problems associated with growth (Rosa, 1998; Iacobucci, 2002; Lechner & Leyronas, 2009). However, entrepreneurs who enlarged the entrepreneurial team were able to set-up a larger number of new businesses and growth at a faster pace that those who preferred to maintain a tight control of all the new businesses.

This discussion suggests the following propositions about business groups formation and growth in the small business sector.

Proposition 1: Business groups are the result of the development of new business by established entrepreneurs, mainly inspired by related diversification opportunities.

Proposition 2: The setting up of a new company is especially advantageous in the start-up phase, as it helps to focus resources on the development of the new product, process or service. When the activities reach their mature stage, companies are more likely to be merged as a result of a rationalization process.

Propositions 3: The setting up of a new company is more likely when portfolio entrepreneurs need to enlarge the entrepreneurial team, both to exploit opportunities he/she already discovered or to accommodate and support business opportunities discovered by novice entrepreneurs.

Proposition 4: The accommodation of outsiders can be crucial in maximising the growth potential of the new venture, through providing energy, knowledge and commitment to the success of the new venture, which the portfolio entrepreneur cannot do him/herself owing to other commitments.

Proposition 5: The entrepreneurial teams developed by habitual entrepreneurs are predominantly formed by former employees. This is because the employee relation allows the entrepreneur to evaluate the entrepreneurial attitude of the employee and develop the trust relationship needed to make him or her part of the entrepreneurial team.

6. CONCLUSIONS AND IMPLICATIONS

The main aim of this paper was to further the knowledge on the growth processes involved in setting up new companies by portfolio entrepreneurs, leading to the formation of business groups. The results of this study suggest that the process of new venture creation by portfolio entrepreneurs and the resulting formation of business groups is important for our understanding of growth in the small firm sector. It is arguably as important, if not more so, than processes involved in the expansion of individual businesses.

There are two main reasons detected in this study for setting up new companies and creating or adding to a business group:

a) the need to specialize (focus) the new organizational unit to enhance the probability of the new venture succeeding;

b) the need to enlarge the entrepreneurial team to access additional, or retain vital entrepreneurial and managerial skills needed to exploit new business opportunities. Setting up a new legal unit provides a means of accommodating or retaining key people by giving them an ownership stake without compromising other business interests.

Compared with alternative ways of organizing the new business, the legal autonomy granted to the new venture helps to focus resources and monitor results. In addition, and most important, legal autonomy allows the portfolio entrepreneur to manage creatively the ownership structure of the new business and give minority shares to key people involved in the start-up of the new ventures. By involving other people in the start-up of new ventures, portfolio entrepreneurs not only integrate specific expertise but also overcome the problem of allocating time and attention among established and new activities; this is crucial for enhancing their ability to enter new businesses while retaining ownership and control of the ones already established.

The benefits of legal autonomy are especially important in the start-up phase. Once the new venture has been established, the need for legal autonomy diminishes and the group may consolidate by merging companies, or even establishing a divisional organization. This suggests the existence of an evolutionary pattern of business group life cycles, with expansion of production companies when new businesses are added, and contraction when the new businesses are consolidated. In some cases the number of companies may stay the same, but the internal structure of the group may be rationalized through the creation of holding companies and a better definition of centralized and autonomous activities. This is

further evidence that in the small business sector groups are mainly the consequences of entrepreneurial processes (i.e. new business creation) rather than an organizational structure for efficiently managing diversified activities.

While the relationships between business group formation and diversification strategies has received attention in the literature, this paper highlights the importance of entrepreneurial team dynamics in explaining business group formation. Most of the empirical literature on entrepreneurial teams refers to owner managers of the same business (Watson et al., 1995; Ensley et al., 2000). The analysis of team development in business groups provides interesting insights into the different types of entrepreneurial teams and their dynamics.

First, the interviews demonstrate that the group form allows entrepreneurs to design and form a wide range of team patterns: from the hierarchical model observed in 'employee involvement' to the 'tutoring' model observed in 'intrapreneurship involvement'. These patterns can be identified within the same group, according to the characteristics of the new venture, the circumstances that led to its start-up and the people involved. Second, though the 'dominant' entrepreneur in the group as a whole does not change, he/she is not expected to play a 'lead' role in all the new ventures. This is evidence of the importance of distinguishing among different types of teams (Harper, 2008).

This study provides additional evidence that growth is achieved by entrepreneurs not only by enlarging the individual firm but also by setting up new ventures, thus developing a business group. By shedding insights into the evolutionary and dynamic nature of this process we have contributed to the understanding of the complexity of growth dynamics in the small firm sector. We have shown that consideration of entrepreneurial processes contributes to an understanding of business group formation by portfolio entrepreneurs. We would suggest that the study of business groups shed light on important aspects of entrepreneurship. Specifically, the analysis of the companies successively set up by portfolio entrepreneurs can further our understanding about how previously established businesses influence the process of opportunity discovery and new venture creation. Although much work has been done on this area, the existing literature has not taken account of the overall process and dynamics of business group formation and the existence, as suggested by our study, of a pattern of development of business groups accompanying the development of the entrepreneur's career.

The results from this study have some implications for researchers and for practitioners as well.

Scott and Rosa (1996) argued that the unit of analysis should be changed from the firm to the entrepreneur when researching performance and growth in smaller firms. The

ability to develop business groups by entrepreneurs can lead to an underestimation of the contribution of entrepreneurs to economic growth and job creation. Since then the habitual entrepreneur has been researched from a number of theoretical perspectives to establish whether superior knowledge or superior resources have a significant role to play in the success of such entrepreneurs in expanding their business activities.

In recent years there has been a growing realization that entrepreneurial processes, while significant drivers of new business activities by portfolio entrepreneurs, are not perhaps the specific reasons why business groups are formed and grown. This is because entrepreneurs have a choice of accommodating their new entrepreneurial activities either within the firm, or outside the firm. This point has recently also been made by Wiklund and Shepherd (2008). This paper takes this logic a stage further, by showing that business groups are formed and grown often in response to the need of accommodating an entrepreneurial team that can drive the new venture forward. Growing by establishing a new firm not only helps the entrepreneur focus resources on the new venture, but enables a new team to be formed that will be motivated and incentivized through an ownership stake, to develop the new venture. There is a relationship to the resource based view and human capital theory here, but the key resource is not only the entrepreneur's experience and knowledge, as heavily researched in earlier studies (Ucbasaran et al., 2008) but his/her own time and attention in growing the established businesses and setting up new ones. The entrepreneur with multiple ventures has to be highly efficient on where time is prioritized, and be able to access specialized entrepreneurial and managerial talent without jeopardizing his/her hold on the new venture, or putting at risk the other business interests. This paper, therefore, has contributed by adding new dimensions to our theoretical understanding of why business groups are so common in the small business sector.

It needs to be stressed that we are not arguing that entrepreneurial processes and team building dynamics are the only relevant perspectives in understanding or explaining why business groups are formed or expanded. The entrepreneurship field is prone to examine complex phenomena from single theory perspectives. Future research may benefit from researching phenomena such as portfolio entrepreneurship with approaches integrating a portfolio of theories. Several theories may all legitimately explain to varying degrees why portfolio entrepreneurs set up business groups, but how they combine may differ from one context to another. We recommend that future research should thus concentrate more on investigating how different theories interact rather than trying to deductively explain any single one. Our study also suggests that there may be advantages in widening the perspectives

from which “growth” in the small business sector is researched in terms of the unit of analysis. The conventional approach of choosing a single firm as a unit of analysis was shown to be incomplete. The study of portfolio entrepreneurs vindicates earlier views that the unit of analysis can be profitably explored from the perspective of the entrepreneur rather than the firm (Scott & Rosa, 1996). This study takes this further, by suggesting that the growth of business groups may form a new unit of analysis to explore how business growth occurs in the small firms sector.

This study has also implications for practitioners. The most important is that of recognizing the group structure as an organizational form specifically suited to facilitating growth through the start up of new businesses. Compared with other organizational settings the business group has its own specificities, the most important of which is the possibility to change the ownership structure of a new business and set it to maximize its probability of success by involving other people in playing an entrepreneurial role. This is not a trivial issue since in the new economic conditions the ability to motivate people and to induce them to make the specific investments needed for the exploitation of new business opportunities has become critical (Rajan & Zingales, 2000). The business group appears to be a flexible form that helps entrepreneurs to exploit new business opportunities while retaining some of the advantages of centralized control. Instead of considering the group as a peculiarity of emerging economies or as an ‘anomalous’ structure resulting from capital market imperfections, it should be seen as an organizational form specifically suited to accommodate growth and, thus, should be given adequate space in the entrepreneurship and management literature.

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Figure 1 – Tree nodes about the new companies

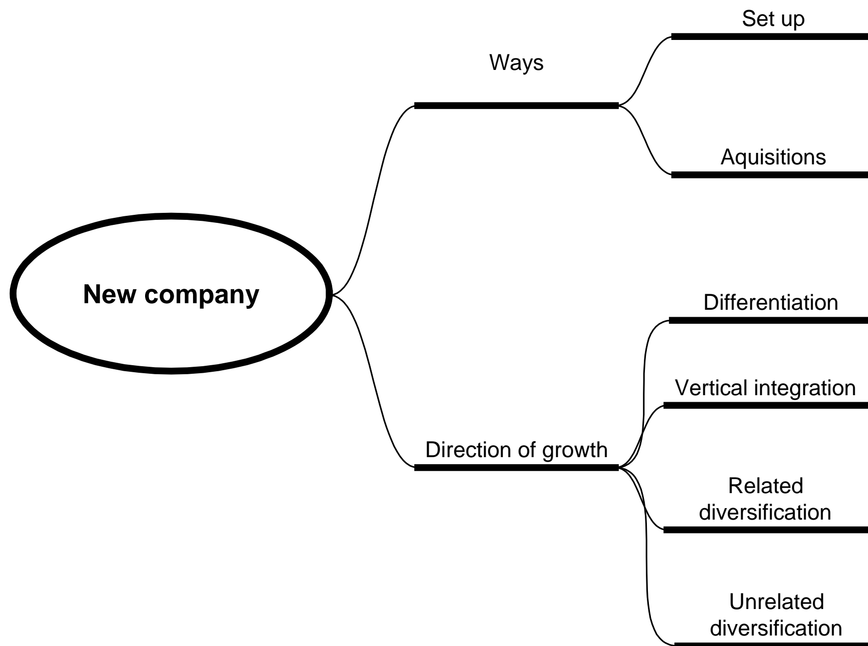


Figure 2 – Tree nodes about entrepreneurial team development

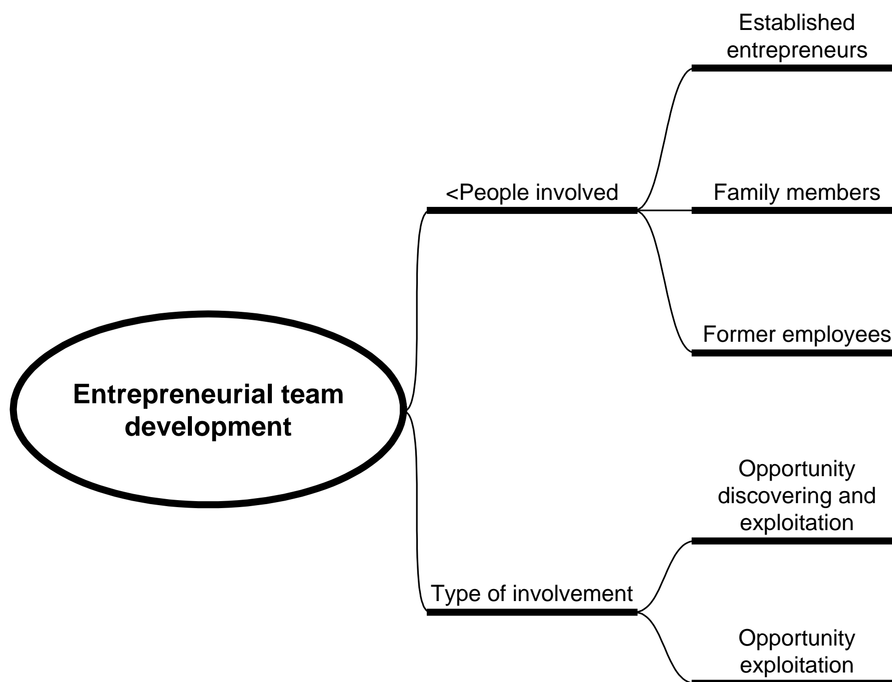


Table 1 – Characteristics of the groups interviewed (2004)

Case #	Original activity	Main direction of growth	Companies in the group	Domestic Production Companies (a)	Overall Employees (2004)	Year of foundation of the original company
1	Paper rolls for printers and calculators	Several segments of paper roll market Design and production of cash registers and other small electric household appliances	7	3	222	1972
2	Batteries for motor vehicles	Several segments of the battery market Electric vehicles (scooter, cars, etc.)	9	2	154	1975
3	Footwear soles	Several segments of footwear soles (leather and synthetic) Vertical integration in compound production for synthetic soles	3	3	293	1964
4	Chemical treatment of metals	Printed circuits Assembly of electronic components Systems for car safety	4	2	142	1972
5	Paper sacks (for industrial use)	Several types of paper sacks (for industrial use) and paper bags	8	3	210	1965
6	Industrial electric systems	Industrial automation systems for household appliances, automotive and aerospace industries	3	2	205	1975
7	Publishing	Printing industry Cartoon industry Products and services for the printing industry	7	5	216	1972
8	Industrial Automation for metal working	Complete range of activities for the design of automation systems in manufacturing plants	5	2	244	1976
9	Printed circuits	Several types of multilayer printed circuits Other products and activities related to the main business (rapid prototyping, membrane keyboards, etc.)	6	3	223	1972
10	Heating systems	Wide spectrum of products and services for air conditioning Heating systems for both industrial and domestic sectors	6	1	105	1985
11	Mould production	Product development and engineering. Mould design and construction. Try outs and moulding.	4	1	187	1971
12	Frames for metal chairs	Office furniture Home furniture	2	1	71	1963
13	Furnishings for bars	Display cabinets for ice-cream	6	3	307	1963
14	Foam	Several plastic products for packaging. Plastic products for the construction industry	4	4	148	1972

(a) Excluding the original company and the acquired companies

Figure 3 – Case #2: structure of the group in 2006 (main companies)

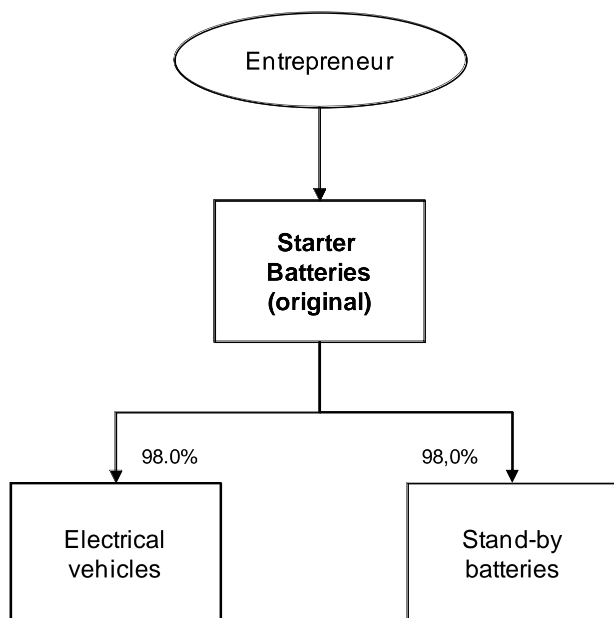


Figure 4 - Case #6: structure of the group in 2006 (main companies)

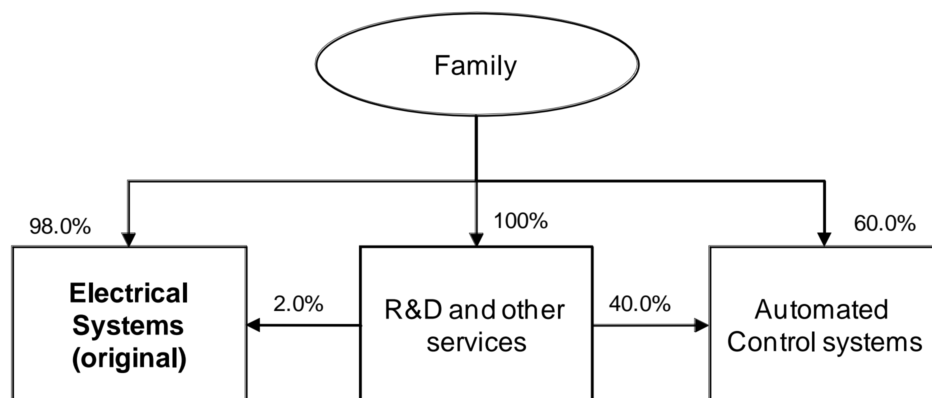


Figure 5 – Case #7: structure of the group in 2006 (main companies)

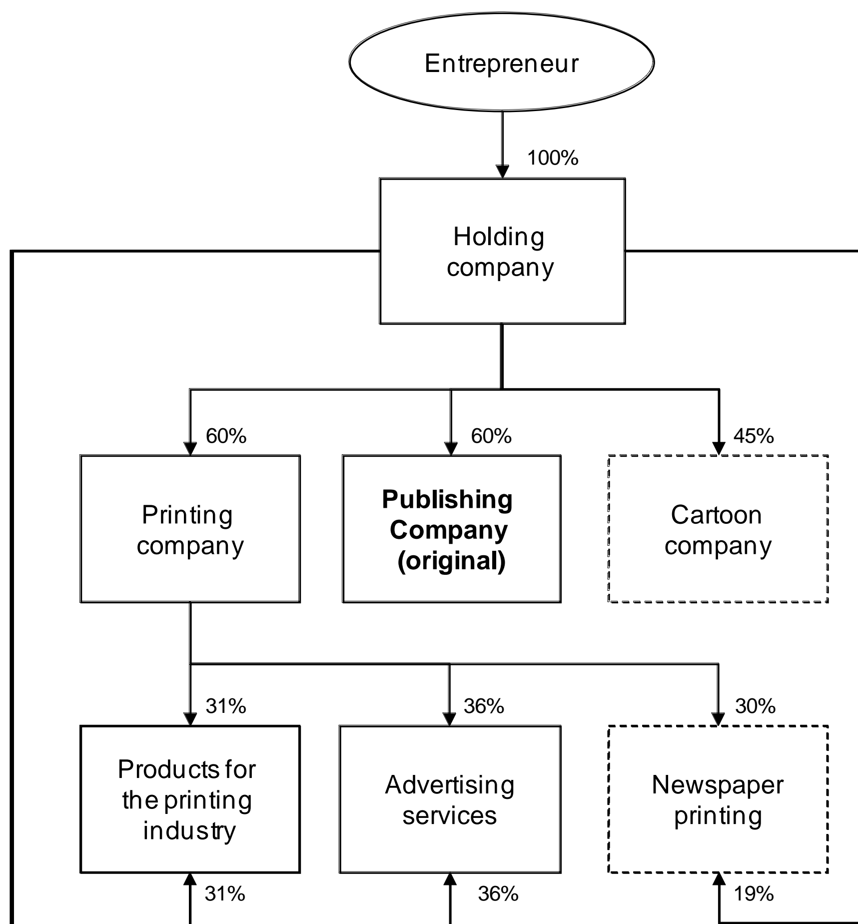
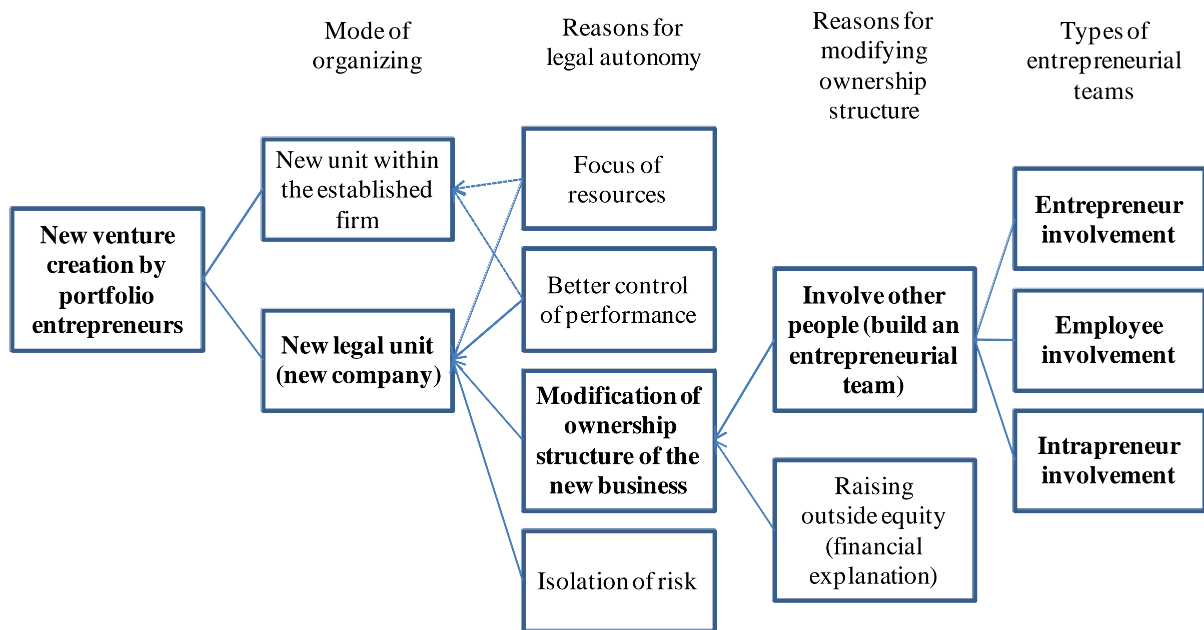


Table 2 – Production domestic companies set-up by entrepreneurs and employee up-grading

Case	Companies established by entrepreneurial team development				*Production domestic companies (b)*	*(a) / (b) %*
	'entrepreneur involvement'	**'Employee involvement'**	**'Intrapreneur involvement'**	**Total (a)**		
1	1	1		2	*3*	*66.7*
2	1			1	*2*	*50.0*
3		2	1	3	*3*	*100*
4	1		1	2	*2*	*100*
5					*3*	
6	1			1	*2*	*100*
7	2	2	1	5	*5*	*100*
8		1		1	*2*	*50.0*
9		1	1	2	*3*	*66.7*
10	1			1	*1*	*100*
11		1		1	*1*	*100*
12					*1*	
13	1			1	*3*	*33.3*
14	1		1	2	*4*	*50.0*
Total	**9**	**8**	**5**	**22**	***35***	***62.9***

(a) (b) Excluding the original company and the acquired companies

Figure 6 - Entrepreneurial team development by portfolio entrepreneurs



Appendix - Interview guide

1. Beginning of the entrepreneurial activity
    - first company set-up
    - product and market of the first company
    - background of the entrepreneur and of other members of the entrepreneurial team
    - reasons for setting-up the first company
    - key resources used at the beginning and ways they were acquired
2. Development strategy and main events
    - growth directions from the original activity
    - development of new businesses: reasons for their development, key resources needed
3. Reasons for setting up new companies
    - new companies set-up from the beginning up to the present time
    - features of the new companies (activity, location, relationships with other companies, etc.)
    - reasons for setting up new companies rather than expanding the existing ones
    - ownership structure of the new companies
    - presence and role of family members or other people in the start-up of new companies
4. Growth dynamics of the group
    - growth rates of the companies
    - closing or mergers of companies and the reasons
5. Present structure of the group
    - relationships between the companies in the group
    - reasons for maintaining legal autonomy of companies
    - degree of operative and strategic autonomy of companies
    - functions performed by family members or other people at group and at company level