

# Second-Generation Entrepreneurship in Family Businesses: Succession, Governance and Strategic Renewal

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**Abstract**—Second-generation entrepreneurship refers to the entrepreneurial role assumed by successors who inherit, join, and subsequently lead family businesses founded by an earlier generation. This article examines the concept, key drivers, and challenges of second-generation entrepreneurship with emphasis on succession, governance, and strategic renewal in family firms. Drawing on existing studies, the paper highlights how inherited financial, social, and human capital shape the attitudes and behaviour of second-generation entrepreneurs compared to first-generation founders. The review indicates that while second-generation involvement can facilitate geographic expansion, professionalization, and innovation, it is also associated with heightened risks related to family conflict, unclear succession, and strategic inertia. The findings suggest that structured succession planning, formal governance mechanisms, and deliberate capability building are critical for sustaining family businesses beyond the second generation.

**Key words**— Second-generation entrepreneurship; Family business; Succession planning; Governance; Strategic renewal; Intergenerational transition.

## I. INTRODUCTION

Family businesses constitute a dominant organizational form globally, accounting for a large share of private enterprises and employment, yet relatively few survive beyond the second generation. The transition from founder-led to successor-led ownership and management is therefore a critical phase in the life cycle of such firms and has far-reaching implications for regional development, employment, and wealth preservation.

Second-generation entrepreneurship captures the process by which heirs or successors move from a primarily managerial or assistance role into an entrepreneurial role that involves strategic decision-making, risk-taking, and opportunity recognition

within an inherited business platform. Unlike first-generation entrepreneurs who build ventures from scratch, second-generation entrepreneurs operate at the intersection of legacy preservation and strategic transformation, balancing respect for founding values with the need to adapt to changing markets and technologies. This article aims to synthesize major themes in the literature on second-generation entrepreneurship and to derive key findings relevant for practitioners and policy makers concerned with business continuity.

## II. REVIEW OF LITERATURE

Early work on entrepreneurial typologies distinguished between first- and second-generation entrepreneurs, arguing that successors enjoy advantages in resources and networks but may exhibit different levels of drive and risk appetite compared to founders. Kazmi's study of young second-generation business entrepreneurs in India showed that they benefit from inherited business infrastructure, family support, and pre-existing market linkages, which shape their strategic choices and growth orientations.

Family business research more broadly has documented that a significant proportion of family firms fail to transition successfully across generations, with estimates suggesting that only about one-third survive into the second generation and an even smaller share into the third. Studies attribute these failures to weak or absent succession planning, lack of clarity in successor selection, and unresolved family conflicts that spill over into business decision-making. Recent literature also emphasizes the changing nature of second-generation involvement, noting that successors often bring higher formal education, international exposure, and

a stronger orientation toward professionalization and strategic renewal.

Empirical work has explored both positive and negative performance effects of second-generation involvement. Some studies find that successors promote innovation, strategic change, and cross-regional expansion by leveraging inherited capabilities while pursuing new markets and technologies. Other research highlights that second-generation-led firms may exhibit financial conservatism, risk aversion, and difficulty in managing complex ownership and governance structures, especially when sibling groups share control. Overall, the literature converges on the view that outcomes are contingent on the quality of succession processes, governance mechanisms, and the entrepreneurial orientation of the successor generation.

### III. FINDINGS AND DISCUSSION

The literature suggests that second-generation entrepreneurs operate under a distinct configuration of advantages and constraints that shape their entrepreneurial behaviour and firm outcomes. Key advantages include access to family financial capital, established brand equity, and accumulated social capital in the form of trusted relationships with customers, suppliers, and financiers. These resources reduce entry barriers, allow longer time horizons for strategic investments, and provide a platform for geographic and product-market expansion.

At the same time, second-generation entrepreneurship is highly vulnerable to familial and organizational challenges. Studies consistently report that poorly designed succession processes, ambiguous roles among siblings, and unresolved emotional conflicts undermine both firm performance and family cohesion. Evidence indicates that the absence of formal governance—such as family constitutions, boards, or family councils—tends to increase the likelihood of disputes around leadership, control, and distribution of returns. Where structured succession planning, clear performance-based criteria for leadership, and transparent communication are present, family firms are more likely to survive beyond the second generation and to sustain competitive performance.

From a strategic perspective, successful second-generation entrepreneurs are those who manage to align legacy strengths with contemporary market demands. Studies document that when successors combine inherited capabilities with investments in professional management, digital technologies, and innovation, they are better able to reposition their firms and exploit new growth opportunities. Conversely, when attachment to traditional practices discourages adaptation, second-generation firms risk stagnation, loss of competitiveness, and eventual exit. Thus, second-generation entrepreneurship can be viewed as an exercise in strategic and cultural renewal within the constraints of family ownership.

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