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Portfolio Entrepreneurs: Structure, Strategy and Management of Business Groups

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This paper draws on the experiences of portfolio entrepreneurs and develops new insights into this important mode of business development. Portfolio entrepreneurs own and manage multiple businesses simultaneously, providing an alternative growth process and the prospect of enduring entrepreneurship. Previous research has focused on either the genealogy of businesses in a portfolio or the human capital attributes that determine who becomes a portfolio entrepreneur and how they perform relative to other types of entrepreneurs. Key issues involving the structure, strategy and management of portfolios need further exploration and development. This multiple-case study conducted in New Zealand features eleven entrepreneurs with portfolios of different ages and sizes, each reflecting a series of opportunistic responses to different situations. Our results show that some entrepreneurs use structure as an internal seedbed to spawn new ventures, others seek opportunities to acquire more businesses, while some use both means to build and maintain their business groups. Structure is the dominant construct, providing a flexible canvas upon which entrepreneurs enact growth ambitions by creating and re-creating their portfolios over time. We found no evidence of portfolio-level decision making or performance measurement with the lead entrepreneur's attention largely focused at the business unit level.

Introduction

Managing a portfolio of small businesses is a practical reality for many entrepreneurs, yet the study of this important mode of enduring entrepreneurship remains underdeveloped (Carbonara et al., 2020; Lechner et al., 2016; Santamaria, 2021). In particular, scholars have largely neglected issues inherent within the structure, strategy and management of such groups (Kişi, 2020). This paper focuses on the portfolio entrepreneur, one who chooses to own *and* manage two or more businesses simultaneously. Portfolio entrepreneurs are thus distinguished from serial entrepreneurs who also own multiple businesses but sequentially, and novice entrepreneurs who only have a single business. Portfolio entrepreneurs make up 10-40% of business owners and are especially prominent in less-developed countries where business groups compensate for inadequate market mechanisms (Carter et al., 2004; Kumar et al., 2012; Lechner & Leyronas, 2009). Previous research has described what portfolios are, who chooses to operate through them, and to what effect. The practice of portfolio entrepreneurship requires researchers to shift their focus from single business models and think anew about the 'why' and 'how'

of small business *portfolios* and growth in this multi-business context (Baert et al., 2016; Dobbs & Hamilton, 2007; Levie & Lichtenstein, 2010; Lumpkin et al., 2010; Phelps et al., 2007; Santamaria, 2018).

Businesses developed by portfolio entrepreneurs generally outperform other businesses and account for a disproportionate share of high-growth firms (Birley & Westhead, 1993). This is an important contribution yet one seemingly overlooked by economists and other scholars (Acs et al., 2017). Portfolio entrepreneurs came to academic attention following the work of Scott & Rosa (1996) and have since been the focus of considerable research from two contrasting perspectives. One traces the genealogy of the business groups (rather than the entrepreneurs), describing the businesses in different portfolios and any inter-relationships among them (Iacobucci, 2002; Park et al., 2021; Rosa, 1998). The other uses large-scale survey data on human capital capabilities to profile different types of entrepreneur (e.g. novice, serial, and portfolio) identifying differences in personal traits and performance among these types (Westhead et al., 2003; Westhead & Wright, 1998). These contrasting perspectives have addressed the important 'what' and 'who' questions of portfolio entrepreneurship. However, strategic

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'why' and 'how' questions remain unexplored. These include the rationale of the portfolio structure, strategy and composition, and management at the operational level, particularly the entry and exit ('pruning') of portfolio businesses (Baert et al., 2016; Lechner et al., 2016).

There are then three areas inherent to portfolio entrepreneurship that merit close consideration. The first is about structure and *why* the loose ownership-based structure is adopted when other viable structures are feasible (Lechner et al., 2016; Wiklund & Shepherd, 2008). Second, *how* portfolios are built and strategically balanced to provide both risk diversification and synergy. Third, *how* focal entrepreneurs manage, i.e., prioritize, monitor and control individual units and the overall performance of the portfolio.

The purpose of this paper is thus to explore the following key 'why' and 'how' questions: *Why do entrepreneurs keep the portfolio structure? How do portfolio entrepreneurs strategize their portfolios? How do portfolio entrepreneurs manage these business groups?* The method used to explore these broad questions is an interpretation of the lived experiences of established portfolio entrepreneurs (Graebner et al., 2012; M. D. Myers, 2020; Yin, 2014).

The ownership-based structures are central to how portfolio strategies are enacted, where strategy follows structure (Mintzberg, 1990; Santamaria, 2018). Portfolio strategies are opportunistic and the outcome of individual business unit initiatives rather than group-wide considerations. The ownership basis of the portfolio structure also allows for a stewardship approach to owner-management within the portfolio, albeit one that focuses on the performance of individual businesses rather than the portfolio as a whole (Fox & Hamilton, 1994). The next section is a review of the literature, supporting the research focus and approach used. This is followed by an explanation of the methodology, analyses and findings. Theoretical and practical implications are then discussed and the paper concludes with limitations and suggestions for further research.

Background Literature

Portfolio entrepreneurs

Who are portfolio entrepreneurs and why are they important? Portfolio entrepreneurs first appeared (although only fleetingly) among the 'empire-builders' in Edith Penrose's classic work on the growth of individual firms (Penrose, 1959). They resurfaced in their contemporary form when (MacMillan, 1986) directed the research community to learn about entrepreneurship by studying such habitual entrepreneurs. The most current research stems from Scott and Rosa's (1996) study that found one-fifth of all businesses in Scotland operated as part of a business group or portfolio. Portfolio entrepreneurs make significant contributions to both developed and developing economies. Some 10-40% of business owners identify as multiple business owners and many studies link them disproportionately to faster growing businesses (Birley & Westhead, 1993; Kolvereid & Bullvag, 1993; Parker, 2014; Pasanen, 2003; Ronstadt, 1988; Rosa & Scott, 1999; Schollhammer, 1991; Shane et al., 1991; Wiklund & Shepherd, 2008). Portfolio

entrepreneurs are also profiled as being moderately risk-averse individuals pursuing new ventures to supplement the performance of an existing business while reducing the risk by building a portfolio within which there is a negative covariance of returns (Carbonara et al., 2020; Cruz & Justo, 2017; Parker, 2014). However, other studies suggest that portfolio entrepreneurs do best when their successive ventures have positive synergies, creating the potential for a tension between portfolio composition and risk diversification (Cainelli & Iacobucci, 2011; Rosa & Scott, 1999).

Portfolio entrepreneurs have some characteristics in common. For example, they self-rate themselves as more creative and innovative than other entrepreneurs, especially novices (Westhead, Ucbasaran, & Wright, 2005), hence offering more attractive growth prospects (Westhead, Ucbasaran, Wright, et al., 2005). Indeed, Spivack et al. (2014) conclude that habitual entrepreneurs have a behavioural addiction to entrepreneurship. Understandably portfolio entrepreneurs bring both harmonious and obsessive passion to their role (Thorgren & Wincent, 2015).

When MacMillan (1986) directed the research community to study habitual entrepreneurs, the rationale was that these individuals would exploit the experience gained from their successive ventures. However, the evidence on this is mixed. While some argue that portfolio entrepreneurs will learn from their own failures (Cope, 2011; MacMillan, 1986; Ucbasaran et al., 2010), Gottschalk et al. (2017) report that these entrepreneurs do not learn effectively from their experience and are just as likely as novice entrepreneurs to close a new venture quickly and end up bankrupt, consequently challenging the hopes of MacMillan (1986) and Cope (2011). Nevertheless, given that portfolio entrepreneurs have advantages of creativity, innovation, learning capacity and passion, it is not surprising that they outperform both novices and serial entrepreneurs (Westhead et al., 2003; Westhead & Wright, 2011). While this is may be so, Ucbasaran et al. (2006) found that portfolio entrepreneurs do not self-rate themselves as performing better than other types of entrepreneurs. Given the economic contribution of portfolio entrepreneurs especially to less-developed economies, their development is an important theme in the small business research literature (Carter & Ram, 2003; Rosa & Scott, 1999) that warrants more in-depth investigation. Here we explore the issues innate in the structure, strategy and management of portfolios, drawing directly on the experiences of individual entrepreneurs.

Structure

Portfolio entrepreneurship is distinguished by a loose ownership-based structure although this is not essential for multiple-business development. Entrepreneurs can develop multiple ventures from within the same business unit (Wiklund & Shepherd, 2008) or restructure a portfolio into a single multidivisional company. Despite the feasibility of these alternatives, the portfolio structure remains widely adopted. For example, Wiklund & Shepherd (2008) found that 41% of their Swedish multi-venture entrepreneur sample use the portfolio structure, while 59% choose to manage multiple initiatives within a single business. However, their more experienced entrepreneurs and those associated with

high-performing firms adopt the portfolio structure, suggesting that it has merit in particular contexts. Lechner & Leyronas (2009) conclude that the group structure of independent small units under close control enables entrepreneurs to realize and manage growth (Mirvahedi & Morrish, 2017), while facilitating the trial-and-error process that precedes the evolution of a portfolio around a core business (Parker, 2014). This echoes Cainelli and Iacobucci's (2011) conclusion that the business group is essential to the strategy of promoting growth and efficiency by allowing both inter-unit synergies *and* central direction. Santamaria (2018) describes portfolio structures comprising unrelated units as a key to growth by reducing the risk of unit interdependencies and facilitating the introduction of new partners and enhancing the resource base of the portfolio (see: Wernerfelt, 1984; Barney, 1991). More recently, Santamaria (2021) found that this that this structure permits the rapid redeployment of resources within a portfolio, a dynamic capability that enhances portfolio performance (Teece, 2007).

Structure is also influential in another way that enhances performance. The study by Iacobucci & Rosa (2010) concludes that the portfolio structure also facilitates entrepreneurial team building. Additionally, Huovinen & Tihula (2008) argue that a management team is a prerequisite for successful portfolio entrepreneurship, reporting that only one in ten of their portfolio entrepreneurs managed without a team (Tihula & Huovinen, 2010). However, does the structure lead to teams or is it the pre-existence of teams that facilitates the portfolio structure? Recent evidence on the portfolio development of family businesses suggests that the development of the family 'team' has a bearing on how and when the portfolio develops (Sieger et al., 2011). Yet, not all multi-business owners adopt the portfolio structure, with many opting instead to manage their ventures effectively in a hierarchical structure. Hence: *Why do entrepreneurs keep the portfolio structure?*

Strategy

A portfolio of various interrelated businesses is a highly complex setting in which to devise and implement strategy (cf. Cosenz & Noto, 2018). As discussed earlier, previous studies have found that portfolio entrepreneurs outperform other types which is seen as a reflection of their greater experience in starting and growing businesses (Westhead, Ucbasaran, & Wright, 2005; Westhead, Ucbasaran, Wright, et al., 2005). However, Santamaria (2021) questions this prevailing view, finding that superior portfolio performance comes from the speed with which underperforming assets are redeployed strategically across the portfolio, and not from previous entrepreneurial experience. Santamaria's (2021) study found that the larger and more related portfolios executed asset redeployment more effectively especially in relation to non-human assets. The greater effectiveness of redeployment is then sufficient to overcome the increased risk of interdependence inside the portfolio (Park et al., 2021; Santamaria, 2018).

This raises the first of two issues of portfolio strategy, viz., how the units are related to the apparent trade-off between greater relatedness and increased risk. Rosa & Scott (1999) found that real diversification into new markets and

forming 'shell' companies in order to minimize taxable profit or protect family assets are among the motives for portfolio development. They also suggest that while external factors will dictate the size of any single business, the growth of a portfolio depends on the ambition and ability of the lead entrepreneur. Furthermore, portfolio entrepreneurs do better by concentrating on internal developments around core activities (Iacobucci, 2002), with unrelated diversification being much less frequent and often attributable to hobbies or changes in direction (Iacobucci & Rosa, 2005; Rosa & Scott, 1999). This accords with the findings in favour of related diversification in other studies of such portfolios (Cainelli & Iacobucci, 2011; Lechner & Leyronas, 2009), as well as in the wider strategic management literature (Rumelt, 1974, 1982).

The second issue is the extent to which a portfolio is built using start-up ventures or acquisitions, or both. In the early empirical works by Rosa (1998) and Rosa & Scott (1999), acquisitions were rare and no mergers occurred. The study by Wiklund & Shepherd (2008) investigating how multiple ventures are organised did not include either acquisitions or mergers as new initiatives to be managed. However, Ucbasaran et al. (2003) sought to distinguish developments that used start-ups from those that used acquisitions. Nevertheless, they excluded any portfolio entrepreneur who used an 'intermediate' route involving both start-ups and acquisitions, but did advocate further research on all three modes. They propose that habitual starter entrepreneurs are more likely to exhibit proactive search behaviour for new opportunities while their acquirer counterparts are more likely to use networks to locate new targets. There is also evidence that more highly educated entrepreneurs adopt the start-up route while those with more managerial experience and facing larger capital requirements favour acquisition (Parker & van Praag, 2012).

The literature covered so far suggests that portfolio entrepreneurs resort to internal venturing to build related portfolios, seeking synergies among the units. However, this overlooks the fact that portfolio entrepreneurs are somewhat risk-averse and need to build some diversification into their portfolios to mitigate this (Kişi, 2020; Lechner et al., 2016; Santamaria, 2018). The strategic tension arises when the desire for interdependence (in pursuit of synergies and redeployment options) confronts the risk of contagion among linked units, hence our question: *How do portfolio entrepreneurs strategize their portfolios?*

Management

The literature is still evolving on how portfolio entrepreneurs actually manage at an operational level in this complex multiple owner-manager role. Small business textbooks relate mainly to the novice entrepreneur and their single business. As Baert et al. (2016, p. 349) point out, "little is known about the processes underlying resource and capability orchestration across ventures in an entrepreneurial setting". Their single case study of a related portfolio is a major contribution to opening up the 'black box' of processes by which these entrepreneurs obtain and manage fungible resources, both human and financial, across the portfolio. Their findings identify three main processes:

sharing, transforming and harmonizing. ‘Sharing’ involves the augmentation of resources of the portfolio and tensions around where and when to share these to best effect. ‘Transforming’ relates to the development of new ventures within the portfolio (incubation) and then moving (decoupling) ventures into the portfolio. ‘Harmonizing’ is akin to managing across the portfolio to produce the best customer value through the exploitation of synergies and the timely discontinuation of some ventures, noting how habitual entrepreneurship allows business failure to coexist with successful entrepreneurship (Sarasvathy et al., 2013). Lechner et al. (2016) also observe how portfolio entrepreneurs mobilize and transfer resources, predominantly financial, between firms. However, as Baert et al. (2016) concede, not every orchestration is successful and further research is needed to understand how entrepreneurs learn this dynamic capability. These findings with regard to ‘harmonizing’ across the portfolio are in line with those of Santamaria (2021) on the redeployment of assets. Santamaria (2021) finds exit rates of portfolio units to be 10-20% higher than those of single-business entrepreneurs but experience a much smaller revenue decline in the year prior to exit. It is this faster reaction to market signals that causes the performance of portfolio firms to move further ahead of single-business firms over time.

In developing his dynamic learning perspective on entrepreneurship, Cope (2005) argues that learning is integral to the practice of entrepreneurship but there are no frameworks outlining how entrepreneurs learn, if at all. Learning to manage from mistakes and failure is much more likely in a small organization (Baumard & Starbuck, 2005), but some cast serious doubt on the very notion that habitual entrepreneurs learn at all from their experiences (D’Souza & Kemelgor, 2008; Frankish et al., 2013; Gottschalk et al., 2017). Entrepreneurs, and portfolio ones in particular, are most likely to learn from past failures but not from successes (Cope, 2011; Ucbasaran et al., 2010), and their learning process may extend well beyond the three years covered by Frankish et al. (2013). At the end of their landmark work on habitual entrepreneurs, Ucbasaran et al. (2006, p. 209) advocate more in-depth studies “... [to] examine each business owned by an entrepreneur and to identify the motivations, opportunity identification process and performance relating to each business”. This study contributes an organizational perspective to this important area of entrepreneurship (Foss & Lyngsie, 2014) by addressing the question: *How do portfolio entrepreneurs manage these business groups?*

Methods

We address three ‘grand tour’ questions (Creswell, 1994; Spradley, 1979): *Why do entrepreneurs keep the portfolio structure? How do portfolio entrepreneurs strategize their portfolios? How do portfolio entrepreneurs manage these business groups?* We do not test hypotheses, aligning ourselves ontologically with the stance of Gartner & Birley (2002) that positivist inquiry alone cannot provide the full story of entrepreneurship as it is experienced. We use a multiple-case study design in the tradition of Yin (2014), following Lechner & Leyronas (2009), Lockett et al. (2012), Rosa & Scott

(1999), and Wright et al. (1997). Case development was historiographic (Buttriss & Wilkinson, 2006; Jones & Khanna, 2006) and, responding to Pasanen (2003), encompassed all businesses involved in each portfolio, including those that were exited.

The study draws on the experiences of New Zealand portfolio entrepreneurs. The most recent New Zealand data (Ministry of Business, Innovation and Employment (MBIE), 2020) counts 546,732 individual enterprises representing 97% of all firms in a country of some five million people. Of this total, approximately 5% are in groups, linked by common ownership (Ministry of Business, Innovation and Employment (MBIE), 2017). Among the enterprises employing 20 or more people, approximately 29% were linked in this way, confirming the significance of this mode of entrepreneurship. We used the New Zealand Business Who’s Who (2005) to identify individuals holding multiple directorships. Searches of the New Zealand Companies Register confirmed individual portfolio entrepreneur status and indication of experience based on the number of businesses and age of their oldest business. Finally, individuals prominent in the local business community confirmed our identification of portfolio entrepreneurs, eleven of whom agreed to participate fully. Of these eleven portfolios, four had been operating for less than 15 years; four had been in existence between 15 and 24 years; and three had survived over 25 years. In addition to variation in age, our portfolios also vary in size and scope, mindful however that scholars have yet to identify optimal portfolio configurations (Baert et al., 2016).

Extended semi-structured interviews formed the basis of data collection following Taylor & Bogdan (1998) with each interview lasting between two to three hours. To support construct validity, these recorded interviews were conducted by the same interviewer. In addition to confirming facts on each business, the interview led into a dialogue around the practice of portfolio entrepreneurship, framed around our ‘grand tour’ questions. The interview schedule is in Appendix 1. The interview transcripts were made available to interviewees for review and correction of any factual errors. Interview data were supplemented by field notes; scrutiny of public documents, including files of the New Zealand Register of Companies, press archives, and internal company records and websites.

Analytical methods were similar to those used in Rosa (1998), Lechner & Leyronas (2009) and Lockett et al. (2012), beginning with reading through every transcript to get a sense of the whole. One transcript was then selected for detailed scrutiny asking ourselves: ‘What is this about? What is going on here?’ This was repeated for several more transcripts, identifying recurring themes. Having thus gained a sense of the data, the transcripts were analyzed using the NVivo software package. The data were then revisited, allocating blocks of text to codes and recoding as necessary, to find overarching themes linked to the structure, strategy and management of these business portfolios.

Findings

Portfolio configuration

Our participants have been portfolio entrepreneurs for

Table 1. Portfolio development summary

Mode of growth	Total portfolio (all companies)	Current portfolios	Total exits
Internal development	86	54	32
Acquisition	33	31	2
TOTAL	119	85	34

a combined total of 227 years. They have owned 119 businesses in total (including the original business), exiting 34 of these and leaving 85 businesses in their portfolios at the time of the interviews. This gives an average portfolio size of just under eight units, somewhat larger than in other studies. For example, Santamaria (2021) reports that 75% of their portfolios are 'quite small' with three or fewer businesses. A descriptive overview of the 11 portfolios featured in this study are contained in Appendix 2.

Related business units are those with product or market commonalities to the core activity, whereas unrelated units had no shared features with the other businesses. This group of portfolios includes several that have used both internal development and acquisition: the 'intermediate' strategy that Ucbasaran et al. (2003) omit from their study of starters and acquirers. There are also have a number of unrelated units (i.e., 29/85) active in these portfolios, but, as others have found, there is a predominance of related diversification within these portfolios (Lechner & Leyronas, 2009; Rosa & Scott, 1999).

To convey some idea of portfolio dynamics (or churn), the combined years of operation of these 11 portfolios is an appropriate denominator. These portfolio entrepreneurs have owned 131 businesses over the combined total of 227 years of operation, adding businesses at a rate of 0.52 per year (119/227), or around one every two years on average. In contrast, the annual exit rate (34/227) averages 0.15 businesses or one business every six to seven years. Portfolio age matters with the four youngest portfolios (E, K, J and I, with a combined age of only 27 years), adding businesses at a rate of 1.30 on average per year while exiting at a rate of 0.26 per year. These rates are higher than the 0.42 and 0.14 averages respectively for the seven older portfolios with a combined age of 200 years. These patterns support the trial-and-error nature of portfolio development noted by Lechner & Leyronas (2009) and Parker (2014), whereby the less experienced entrepreneurs search for portfolio focus at the early stages with much more stability evident in the older portfolios (Ucbasaran et al., 2009). In Table 1 summarizes the total portfolios (current and exits) with the current portfolio, distinguishing those internal to the portfolio and those acquired into it. It is worth noting here that only two of the 33 entities (6%) acquired into portfolios were subsequently removed, compared with 37% of those stemming from internal development. This suggests that acquired units are more likely to be retained in the portfolio structure.

The next section reports on the case study findings and follows Pratt (2008) by introducing each section with the 'power' quote (in bold) which best conveys these infor-

mants' experience. We then elaborate on this using more specific extracts from the interviews.

Why do entrepreneurs keep the portfolio structure?

... and part of the initial plan was there was going to be some employees that were going to come in as shareholders in [X1] only, not [X2] so I can see them as being two distinctly different companies ... like people want to invest just in [X1], or they can invest in [X2] as well ... if we want a partner. - J

All of the portfolio entrepreneurs retained 100% ownership and control of at least one business, but had various shared ownerships within the portfolio. Full ownership of a business unit could be a solution when current shareholders (including family members) lack the commitment expected by the lead entrepreneur. Underperformers are consequently removed and their previously part-owned business becomes 100% owned by the lead entrepreneur. When needing additional capital, portfolio entrepreneurs are quite amenable to admitting new equity partners, but control remains a significant issue.

We've got a company with us owning half and the guys that are running it owning half [so] they take that company very personally ... at 50/50 we got to sit around the table and sort it out and that is the healthiest way. - I

The portfolio structure facilitates the main funding routes for portfolio growth, which is internal cash flow and new equity invested by active partners as also found by Santamaria (2018). While contrary to the normal 'pecking order' in small firm financing (S. C. Myers, 1984), this preference for new equity investors ahead of debt finance ensures the incentive of ownership hence, a lower cost of then managing and coordinating the portfolios. Some portfolio entrepreneurs invite key employees to invest in the equity of a business while others offer profit sharing without ownership. Others (see 'power' quote), create two separate companies from the core business allowing staff shareholding in one aspect of the business, while simultaneously seeking investment from other sources. The level of control is a significant issue, and for some, a minimum equity stake of 26% is essential, thus blocking special resolutions on major changes in governance and direction. Others saw the role of equity partners as essential with ownership stakes related inversely to the size of the business where essentially part share of a bigger business was preferred to full ownership of a smaller one.

I will challenge them to say do you want 100% of nothing

or 20% of something. I think a lot of people get stuck on ownership and think they have to control the whole thing.
- K

Performance is monitored closely, with the lead entrepreneur ready to increase their level of ownership if they perceived a lack of commitment or potential conflict in any company.

He (partner) said 30% of this company is worth \$180,000. He said we're prepared to offer you \$200,000 for your share. I said I will give you \$400,000 for your 30% [and] write a cheque this afternoon. - I

New equity partners, thus motivated, give the lead entrepreneur time to manage and develop other business units. Operating each business as a profit center provides a clear basis for close owner control, avoiding the complications of shared group overheads and internal transfer pricing. Team-based management is a concomitant of the portfolio structure but we doubt if this is indeed the main reason for the structure's persistence (Iacobucci & Rosa, 2010). Further research on the significance and antecedents of team-based management in other structures would be useful. We conclude that the rationale for the portfolio structure is to facilitate the introduction of profit-motivated owners and removal of poor-performing equity partners.

How do portfolio entrepreneurs strategize their portfolios?

Got to have growth ... a business that has flat-lined does not excite us. So it's got to be something that we can grow and it's got to be something you probably have knowledge of. You see some of these businesses are interrelated. - F

These entrepreneurs are growth-oriented and use this mode of organizing to motivate and manage growth, echoing Lechner & Leyronas (2009) and Mirvahedi & Morrish (2017). Our informants employ two distinct portfolio creation strategies in pursuit of growth. Portfolios evolve either from a single business that expands rapidly and is then fragmented into separate businesses, or by acquiring other businesses and bringing them into the portfolio.

Your options are either you set up from scratch or you look around for something you can acquire or absorb that might be quicker and easier way to get the business going.
- I

However, in accord with other findings, mergers were not used to bring new assets into a portfolio (Rosa, 1998; Rosa & Scott, 1999). While merging is not facilitated by a structure that is premised on maintaining independent businesses, there were occasions however, when separate businesses already in the portfolio were merged and concentrated into a large unit. Individual portfolios develop as a series of distinct responses to emerging opportunities and placing considerable emphasis on the internal growth of only one or two business units at a time.

Following the internal focus in [Table 1](#), there was also frequent de-merging or splitting of larger units within the portfolio as also noted by Lechner & Leyronas (2009) that

directly affected the make-up of the portfolio. A fast growing business can become too big to remain a single entity and it makes strategic sense to divide it into separate units. This can provide operational focus and opportunities for attracting new investment. For example, the scope of an adventure tourism business included two distinct client bases (i.e., corporate and adventure). The founder felt staff needed clarity to tailor appropriate activities for the two segments thus divided the business into two.

Down the track it will make sense to ... separate, break something out, so the very fact that you are in a position where you are sitting with bits of equity here and there. - E

In some portfolios, acquisitions complemented internal development, but this was not the dominant growth mode in the majority the portfolios (see [Table 1](#)). Often, opportunities for acquisition presented as either vertical or horizontal integration. For example, one manufacturer needing to quickly secure a supply line, used acquisition to integrate backward and is also considering acquiring a major customer. Acquisition was also a path to faster growth, but one justified differently by the entrepreneur's investment criteria, which could include eliminating direct competitors or saving business customers in trouble.

So the idea that let's have twenty competitors and we will just work with each other, I don't believe it at all. I will say how can we eliminate our competitors, and do that ethically and well? - F

To secure a supply line of a particular type of products, and the next [acquisition] that I'm looking at actually is a customer that's in some difficulty. - G

Acquired businesses remain independent units rather than merged with another business in the portfolio, utilising this 'loosely-coupled' structure (Lechner & Leyronas, 2009). Acquisition is the means of accelerating growth (Penrose, 1959) and there are explicit expectations to guide this behaviour. In contrast, the internal developments seem somewhat serendipitous (Mirvahedi & Morrish, 2017; Rosa, 1998). These entrepreneurs did not seek to create an overarching identity for their portfolios, reflective of their opportunistic approach. Additionally, there were no references to group-level boards or consolidated accounting. This challenges previous findings that the business group is the appropriate unit of analysis (Cainelli & Iacobucci, 2011; Lechner & Leyronas, 2009) when investigating this phenomenon. Finally, while it is usual to define portfolios around relationships with a dominant core business, this does not appear to be a major concern to the entrepreneurs in this study. They were not prone to nostalgia and rather accepting of changes to the core brought about by acquisitions and exits.

X is just an old company –taken over and will probably disappear in the end. Y is an old company that will disappear in the end, because that will get woven into W Ltd, Z Ltd will go... - K

We therefore conclude that portfolio entrepreneurs strategize at the business unit level, not at the group level as others have suggested. Internal and external modes of

portfolio development are opportunistic, with internal developments being more serendipitous with a less formalized investment process than that used for external acquisitions.

How do portfolio entrepreneurs manage these business groups?

I've got all the businesses listed and I've got the years ... and I look at how much it makes in a year ... and how much it made a couple of years before ... I want to grow by a certain figure [and] as long as that bottom figure grows, I'm not too concerned. - F

These portfolio entrepreneurs stay informed about each business in their portfolio, using the structure to orchestrate the movement of money, people and businesses, into and out of the portfolio. With an average portfolio of eight businesses, the entrepreneur often wants to be in eight places at the same time. Setting and dealing with priority issues is central to how they manage themselves.

People talk about time management. You cannot manage time. You can only manage priorities [but] you cannot manage priorities unless you know where it is you are going. It is absolutely the key. - D

Within these priorities, most of their time is devoted to the newer ventures, with commitments of 40-50 hours per week quite common especially at the start-up phase. When new ventures took priority, portfolio entrepreneurs spent much less time on their established businesses which means being able to trust co-owners. Consistent with the stewardship model of managing, it is critical that business units operate without the close supervision of the focal entrepreneur. They choose to work closely with a select group of people and would often refer to “we” even if they themselves owned 100% of the business. The “we” could be investment partners or company management. The corollary of this close-knit team is apparent and portfolio entrepreneurs would get out of a company (or buy the others out) if they become uncomfortable with a business relationship. These relationships are vital to the entrepreneurs who recognize the need for time away from the current portfolio to contemplate future moves. Hence, the delegation of day-to-day management to select teams.

It would be rare for all businesses across a portfolio to perform well simultaneously. The breadth of a portfolio does however, insulate the owners to ride out fluctuations without divesting. Nevertheless, performance remains driven by sales and margins, just as it would be in a single business context.

Sales and margin, that's where it all comes down to ... assuming you control your overheads - you just assume because if you can't do that, you should not be in business, but you're always driving that formula of sales and margin - you can get both to go up, then you get very nice results. - C

The portfolio structure also facilitates the identification and response to underperformance (Santamaria, 2021). While no failure is easy, these entrepreneurs learn from their experiences and could refocus their energies positively to other areas of the business. Failure within these portfo-

lios occur for the same reasons that single businesses will fail: powerful competitors; industry downturns; and ‘people issues’ such as absconding partners. They have also learned over time not to allow the success of the rest of their portfolio to protect them from the implications of any failure.

But we've learned our lesson from that, probably we weren't disciplined enough ... as long as two or three out of ten succeeded it wouldn't matter. It's the wrong approach really. I've been down that track and yeah, obviously try and not make it again. - I

These findings endorse those of Ucbasaran et al. (2010) that portfolio entrepreneurs are the most likely to have their confidence knocked by a failure, and using this as a proxy for their learning. Nevertheless, when a high proportion of businesses fail, motivation drops and fewer opportunities are identified (Ucbasaran et al., 2009). Generally, our informants acknowledge their shortcomings and are able to reflect and then react positively to this experience. These entrepreneurs remain directly involved in monitoring the performance of each business, consistent with their ‘portfolio strategy’ of doing what was thought best for each business. They have a conventional business-unit focus on profit margins and bottom-line, while acknowledging that a diverse portfolio would shelter them when some units were not doing well.

All but one of the entrepreneurs had experienced failing businesses that they had to eject from their portfolio. The striking feature from the study is how they came to treat such failures as learning opportunities. The enduring nature of a portfolio makes the application of this learning somewhat easier for these entrepreneurs than it would be for single business owners (Huovinen & Tihula, 2008). The removal of a business does not necessarily equate to failure and is not seen as such (Sarasvathy et al., 2013). In fact, on a number of occasions, removal via a trade sale resulted in substantial cash gains that funded further development of the portfolio. With the limitation of the data in this study, it is not possible to ascertain whether individual businesses would have performed better or worse independently of their portfolio. This would be an interesting study and one that would have important policy implications (see Pasanen, 2003). We conclude that portfolio performance expectations are set and managed at the level of the business unit, not at the group.

Discussion and Implications

The purpose of this paper was to explore some ‘why’ and ‘how’ questions pertaining to the practice of portfolio entrepreneurship. This embraces a large section of entrepreneurial activity but one that remains underdeveloped in both the applied literature and academic curricula on entrepreneurship. The aim has been to facilitate the learning of others by interpreting the experiences of these portfolio entrepreneurs. The findings require researchers and advisors to think differently about a range of issues, including growth and job creation through multiple business development, and small business strategy and management in the portfolio rather than the single business context. We also need to accept failure as a learning experience and

Figure 1. Growth options of portfolio entrepreneurs

GROWTH FOCUS	MODE OF GROWTH	
	INTERNAL	EXTERNAL
BUSINESS UNIT Individual business within the portfolio	CONCENTRATION Investment in existing businesses or merger of portfolio business units	INTEGRATION Purchase of an existing business which is then integrated into another business unit within the portfolio
PORTFOLIO The number of business units making up the portfolio	FRAGMENTATION Start-up of new businesses or splitting of one business into two or more	INDEPENDENCE Purchase of an existing business which is maintained as a separate entity within the portfolio

an inevitable part of portfolio churn, disassociating business failure and entrepreneurial success (Sarasvathy et al., 2013).

These portfolios reflect a series of opportunistic responses to commercial opportunities identified by or frequently attributed to, the lead entrepreneurs. These individuals develop their portfolios in different ways. Some use the portfolio structure as their internal seedbed; others acquire businesses into the structure, and some do both. This trichotomy of portfolio development paths, already identified by others (Ucbasaran et al., 2003), merits further attention in longitudinal designs, perhaps linked to portfolio churn (see Rosa & Scott, 1999). Structure is the dominant construct running through the narratives, facilitating the orchestration of people and capital through the portfolio, and providing a flexible canvas upon which each entrepreneur could enact their growth ambitions by creating and re-creating their portfolios (Baert et al., 2016; Santamaria, 2018, 2021).

Figure 1 shows the strategic development paths available to portfolio entrepreneurs with the mode of growth labeled as either 'internal' or 'external'. Internal growth reflects growth from investing in existing businesses or merging businesses within the portfolio, thus increasing the portfolio's concentration in an area. Internal developments include start-up of new businesses or the splitting of an existing business into two or more new entities, increasing the number of businesses in the portfolio (*fragmentation*). The external mode involves the purchase of an existing company (see Ucbasaran et al., 2003) for either *integration* with a business unit or retained as a separate entity within the portfolio, with full *independence*.

These results make no reference to a 'portfolio strategy' or group-level decisionmaking, with performance largely managed at the business unit level. This suggests that the expression 'multiple business owners', originally coined by Scott & Rosa (1996), may be a more appropriate descriptor than portfolio entrepreneur. This carries with it however, the clear implication (following Baert et al., 2016), that more strategizing at the portfolio level would enhance synergies and resource orchestration, leading to more enduring entrepreneurship. Both internal and external routes were opportunistic, with largely serendipitous internal developments dominating both portfolio entries and exits. External moves were relatively rare, much more formalized, and had

a markedly lower exit rate among the portfolios featured in this study. Portfolios based mainly on internal developments were also smaller and less core related, implying the need for more selectivity on new developments spawned within the portfolio.

Conclusions and Further Research

Overall, the portfolio structure is the dominant construct that provides a malleable canvas whereupon entrepreneurs can pursue their growth ambitions by creating and re-creating their portfolios over time. However, there is no evidence of portfolio-level decision making or performance measurement. Instead, management attention remains focused at the business unit level. Moreover, these findings come with two important caveats. First, despite the wide range of age, size and scope, our eleven portfolios do not constitute a statistically valid sample, hence we cannot generalize our findings beyond the study's context. Second, our study has an inevitable survivor bias as we could not identify entrepreneurs that had failed in this mode of development. Nevertheless, these findings are an important contribution towards a better understanding of the practice of this important type of entrepreneurship and therefore warrants further investigation.

Building on our findings, we suggest five areas for future research. First, elaborating on the call by MacMillan (1986), scholars might learn even more from portfolio entrepreneurs by studying those who have failed and either abandoned entrepreneurship altogether or reverted to another form such as serial entrepreneurship. Second, there is much scope to build on the important work of Baert et al. (2016) and Santamaria (2021) to investigate how and when resources can be best orchestrated or redeployed across related and unrelated portfolios, bearing in mind the tension between interdependence and risk. A third area of research could also explore differences in overall performance between portfolios, for which consolidated financial statements would be a useful development. Fourth, following Cruz & Justo (2017) and noting the ubiquity of family businesses, we need to understand more about how family businesses can best use portfolio entrepreneurship to pursue growth while mitigating the risks to their socio-emotional wealth. Finally, this study was conducted in New Zealand, a typical western economy. On all the above points, inves-

Investigating portfolio entrepreneurship in different economic (e.g. developing and emerging economies) and regional contexts will result in even better understanding of the phenomenon and its role in business growth and development.

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Appendix 1: Portfolio entrepreneur interview schedule

Description of business activities:

Name:

Code:

Contact details:

Age:

Personal background:

- Education
 - Family
 - Social networks
 - Economic/financial background
1. Mapping exercise (plotting out the business group)
 - Current ownership
 - Previous ownership
 2. Reasons for starting each business
 - Seeking growth
 - Challenge
 - Hobby
 - Protect existing businesses
 - Effect other directorships on starting new business
 3. Growth strategies
 - Diversification
 - Internal growth – sticking to core business
 - External growth – new branches; acquisitions; franchise; minority investments; spin-off diversifications
 4. Ownership structure
 - Shareholding
 - Directorship
 - Family involvement
 5. Other economic activities (not formal businesses)
 - Land
 - Property – renting
 - Shares
 - Business angel investments

- Non-executive directorships – how many
 - Links with community organizations
6. Resource and management issues
 - Financing – new firms added to the cluster
 - Personnel – how new firms are staffed
 - Managing clusters – problems and overcoming them
 7. Performance issues
 - Do the businesses benefit from being part of the cluster
 - Are some businesses better performing?
 - What about failure? How is this viewed and dealt with?
 8. Dynamic issues
 - Is there a dominant business?
 - Does it change over time?
 - Links to wider economic/environmental issues
 - Dependence on the entrepreneur
 9. Personal issues
 - How did you start as an entrepreneur?
 - Did you actively seek out to be one or just happened to be one
 - Succession plans – sell, pass on to family, etc.
 - Personal satisfaction, etc.
 10. Other issues
 - Personal views on portfolio entrepreneurship
 - Corridor principle: the role of other directorships in:
 1. Identifying new opportunities
 2. Starting new businesses
 3. Financing
 4. Managing, etc.

Describe for me a typical _____ business day

What would be an unusual day?

How do you think your peers view you?

How do you think your family view you?

Where to from here for you?

Appendix 2: Profile of the portfolios studied

ID	Age of portfolio (years)	Size of current portfolio (Units)	Current Acquired (Total acquired)	Current Internal (Total internal)	CURRENT PORTFOLIO Related to core by:				Unrelated to core		Exits	Total number owned
					PRODUCT		MARKET		100%	Joint		
					100%	Joint	100%	Joint				
A	27	4		4 (13)	2				2		9	13
B	20	5		5(9)	1		2		2		4	9
C	22	6	3	3(6)	5				1		3	9
D	36	10		10(13)		1			6	3	3	13
E	7	5	(1)	5(6)					1	4	2	7
F	23	16	9(10)	7(9)	6		4	2	3	1	3	19
G	23	5	2	3(5)	1	1	1	2			2	7
H	49	11	6	5(8)	2	4	3		1	1	3	14
I	2	4	2	2(6)		2	1		0	1	4	8
J	6	3		3(3)	2					1	0	3
K	12	16	9	7(8)	5	6	2	1	1	1	1	17
Total	227	85	31(33)	54(86)	24	14	13	5	17	12	34	119