ISSN: 1796-9360

NON-FAMILY EXECUTIVES IN FAMILY BUSINESSES - A LITERATURE REVIEW

Sabine B. Klein[1]
European Family Business Center
European Business School
Rheingau Palais
Söhnleinstrasse 8 D
65201 Wiesbaden
Germany
Tel. +49 (0) 611 36018 700
Fax. +49 (0) 611 36018 702
sabine.klein@ebs.edu

Franz-Albert Bell[2]
f.a.bell@web.de

Abstract

The role of non-family executives in family businesses is under-researched in comparison with its importance. Reviewing the existing literature serves as a starting-point for promoting future research. Based on a literature analysis, we develop a model for the interaction process between a family owner and a non-family executive. The main contributions for the non-family executive in family business literature are presented and structured following this interaction process. Finally, potential and unanswered questions help determine directions of future research.

We would like to thank Niki Kux-Kardos and Jessi Ebert for their help with this paper, as well as Peter Jaskiewicz, Torsten Pieper and two anonymous reviewers at the ifera conference Jyväskylä in March 2006 for their valuable comments.

Key words: corporate governance; family business management; non-family executive; family business.

---

[1] Sabine B. Klein is assistant professor at European Business School in Oestrich-Winkel, Germany and academic director of the European Family Business Center at the European Business School.
[2] Franz-Albert Bell was PhD student at European Business School until September 06 and now working in a big, multi-generational family business in the HR-department.

ISSN: 1796-9360

INTRODUCTION

Any business with the intention to continue and grow needs executives with a profile matching the business culture, organization, and strategy (Gallo, 1991; Welch, 2005). This holds especially true for family businesses, since they tend to have a specific and distinct business culture (Denison et al., 2004). In contrast to public companies, family businesses are often managed by their owners or members of the owning family. However, in many cases the managing responsibility is partly or even fully handed over to non-family executives. At this point, the emerging role of non-family executives in family businesses is under-researched in comparison to its importance (Astrachan et al., 2002; Chua et al., 2003; Poza, 2004). Reviewing the existing literature serves as a starting-point for promoting future research. Therefore, this paper analyses the current state of relevant research on non-family management in family businesses. Our goal is to high-light the results found so far. In addition to this, work from non-family literature will be integrated in order to derive potentially interesting and relevant research questions, and finally, to identify weaknesses in our current understanding. From here, readers may develop questions in the family business area that might also contribute to further expanding non-family business literature. In order to do so, we first lay the foundation by defining our key concepts. We then elaborate on the importance of non-family executives in family firms. Subsequently, we present the extant research by following the process of engagement of a non-family executive; namely, the pre-engagement phase, the recruitment phase and the employment phase. We close our research note with conclusions, limitations and outlook.

Definition and classification

There are three possible compositions of management teams in family businesses: (1) pure family management, (2) mixed constellations, i.e., cooperation with non-family executives, and (3) total separation of ownership and management, i.e., pure non-family management (e.g., Klein, 2000; Becker et al., 2005; Habig & Berninghaus 2004). The term ‘family business’ is defined here as of a business that is substantially influenced by one or more families (Klein et al., 2005). The acknowledged literature, however, does not define the term ‘non-family executive’ or synonymously used terms such as non-family, external, outside or professional top or key managers. Only Schultzendorff (1984), in an early approach, depicts a non-family executive as a person who is neither a blood relative nor related to the owning family by marriage or adoption. S/he should hold no or only few shares. Another premise is the non-family executive’s seat on the management board. Here, the non-family executive is able to shape actions according to his/her individual intentions, motivation, skills and scope. Like family members or other stakeholders, s/he can influence the system and its subsystems.

The field of non-family management expands into other related research areas. This literature review will either explicitly distinguish or exclude such research topics. First, the topic of non-family employees in family businesses certainly affects the topic of non-family management, and will be considered here (Eckrich & McClure, 2004). Primarily, top level employees are regarded in this context. Also included, but with less attention, are studies on professional executives in non-family businesses or owner executives in family businesses, as well as non-executive directors on the

ISSN: 1796-9360

board of directors (Anderson & Reeb, 2004). In this context, the focus is on two different corporate governance models: (1) the one-tier board model (e.g., in the US) with only one board of directors responsible for management and supervision and (2) the two-tier board model (e.g., in Germany) with a strict separation between the top management board and, only mandatory for a limited company, the supervisory board (Witt, 2004; Weimer & Pape, 1999; Anderson & Reeb, 2004). It is important to note that this literature review concentrates only on executives managing the company's business operations in both corporate governance models. Concrete, by discussing the non-family manager, we are looking at members of the top management board in the two-tier system and at executive directors in the one-tier system.

The literature review analyses practical and scientific publications regarding non-family management published since 1980, the time of foundational research in family business (Bird et al., 2002). Numerous publications in this field are anecdotal by nature and reflect personal experiences of family business owners, non-family executives and, above all, consultants on challenging aspects and best practices (e.g., Aronoff & Ward, 2000; Hennerkes, 1998). Since many publications have been written to advise family business owners, the authors´ motivation should always be taken into consideration. Since they do not follow quality research guidelines (e.g., IFERA, 2003b), they are clearly marked in the references section and are included, due to the lack of more scientific works. Apart from the aforementioned practical publications, significant scientific research related to family business is identified in the literature, mostly in the corporate governance and organization context. The authors surveyed journals on family business, such as the *Family Business Review*, journals focussing entrepreneurship, such as *Entrepreneurship, Theory & Practice,* journals on organizational behavior and psychology such as *Organizational Science*, journals on general management, such as the *Academy of Management Journal*, doctoral theses, textbooks, and conference proceedings. Scientific papers are portrayed by only a few quantitative papers (e.g., Anderson & Reeb, 2003; Chua et al., 2003) and several qualitative or theoretical approaches (e.g., v. Schultzendorff, 1984; Astrachan et al., 2002). For executing the literature research, a specific alteration of *Procite* (a software program for literature administration and search) and online data bases such as *Ebsco* were employed. *Procite* allows for search in titles, keywords, full text and in articles related to those coming up in the search itself. It therefore represents a tool which is covering not only a great variety of journals but also allows for a more in-depth analysis of the journals under research. In total, a basis of more than 20.000 papers of A-journals as well as of family business related journals was under search.

The importance of non-family executives in family businesses

Although authors from various countries state both the importance and the lack of research on non-family executives (Chua et al., 2003; Astrachan et al., 2002; Poza et al., 1997), not much empirical data are available concerning the number and position of non-family executives. Klein (2000) used a random sample (n=1158) of all German companies with a turnover of more than one million € and found high involvement of non-family executives. 44% of all management boards are completely controlled by family members, 42% have a mixed management team and 14% have a pure non-

ISSN: 1796-9360

family management (Klein, 2000, p. 170).[3] Although it is clear that many non-family executives are present in family firms, there is no significant research on the management positions or functions they serve. We do know from expert interviews, however, that in many cases the CFO position is probably the first experience with non-family executives for family business owners (Jeuschede, 1998).

The figures concerning the CEO position differ significantly. According to the MassMutual American Family Business report (2003), 20% of family-owned businesses in the United States have a non-family CEO, whereas there are 55% according to the analysis of 141 large, quoted family businesses in the S&P 500 by Anderson and Reeb (2003). Klein (2000, 2004) also reported that in Germany the percentage of non-family executives in management teams is increasing relative to the size of the family business (see Fig. 1).

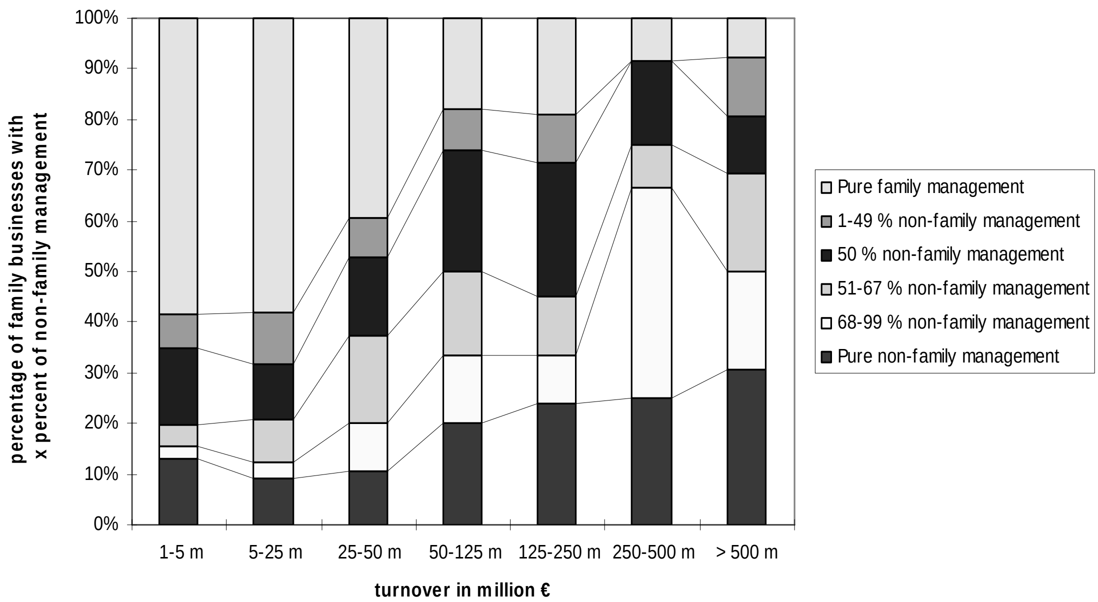

Figure 1. Non-family management in German family businesses according to turnover classes (Source: Klein, 2000, p. 171).

Larger, older and more established family businesses tend to have more experience with non-family executives (Bhattacharya & Ravikumar, 2004; May et al., 2005). In any case, the importance and the percentage of outsiders involved in family business management seem to be increasing. Current literature, although often not empirically proven, confirms this development (Becker et al., 2005; Chua et al., 2003; Aronoff, 1998; Dyer Jr., 1989; Hennerkes, 1998). Chua et al., (2003) suspect that this can be explained by the limited number of appropriately qualified family members willing to become involved in management.

[3] also see Jeuschede (1998), who identified 17.4% pure non-family management, 51.1% mixed constellations and 31.5% pure family management using a convenience sample of 152 German family businesses.

ISSN: 1796-9360

LITERATURE REVIEW

The literature review identifies major topics of non-family management in family businesses, even if this field is often only marginally discussed as a part of other research questions. The authors follow the process of engagement that includes three consecutive steps: (1) the mutual considerations to enter a relationship between a non-family executive and a family-business owner, (2) the recruiting process, and (3) the relationship and behavior during employment. Consequently, major issues and theories concerning non-family management can be integrated in a descriptive way. We evaluate literature from both the family business owner's and the non-family executive's perspectives.

Why to join a family business – Why to employ a non-family manager

Before entering the relationship, both parties must have a reason to engage. Only if the family business owner seriously considers the possibility of engaging a non-family member, the process will start. There are various reasons underlying such a request. The necessity to employ a non-family executive can be caused by the state of the family or by the family business itself. An increasing number of family business owners are facing the problem of having no successor in general or no family member who is willing, qualified, or accepted (Chua et al., 2003; Ibrahim & Ellis, 2004; Schultzendorff, 1984). The family business owner might also expect the outsider to be an interim solution, e.g., to bridge two family generations together in order to perhaps prepare a member of the next generation as a potential future family manager (Le Breton-Miller et al., 2004; Poza et al., 1997; Astrachan et al., 2002; Gallo, 1991) or in order to help the business through a serious crisis (v. Schultzendorff, 1984). Finally, in some cases non-family executives may be hired in order to avoid interpersonal conflicts and problems in the owning family. They may serve as a neutral solution between conflicting owning families or owning family members and reduce unintentional family entrenchment (Astrachan et al., 2002). In some family businesses, only external managers are allowed to take over the management function (Klein, 2004). By this measure, family owners do not just expect to de-emotionalize or de-familiarize the management team and bring a more formal style of management and decision making (Ibrahim & Ellis, 2004), but in particular to open the limited pool of capable family members to the open market of capable talents (Le Breton-Miller et al., 2004). The larger and more complex the family business, the more executives with a higher level of professionalism and external knowledge are required (Klein, 2000).

Apart from the family business owner, non-family managers not engaged in the business so far must also consider joining a family business, since otherwise there would be no future relationship. Highly qualified non-family managers might favour non-family businesses instead of family businesses because they may present fewer emotional complications e.g., the absence of family quarrels or unqualified interference or disposal (Poza, 2004; Ibrahim & Ellis, 2004). However, there are still good reasons and prospects for qualified non-family executives to work in a family business. "Family-owned companies give you a level of collegiality and informality rarely found in corporate environments." (Welch & Welch, 2006, p. 144) Beside general effects caused by a job change such as the executive's career advancement or a higher income, Schultzendorff (1984) also mentions the so-called broad impact: how the non-family executive's actions affect his/her surroundings within and beyond

ISSN: 1796-9360

the business and his/her new status. The new job enables the manager to influence a larger group of people with his/her capabilities and to influence the organizational behavior, structures and processes. Apart from the potential to exert influence, family businesses offer the chance to realize individual visions, goals and entrepreneurial tolerance or independence (Aronoff & Ward, 2000). According to Aronoff and Ward (2000) non-family executives often expect a family business to be less bureaucratic with fewer hierarchies. Beside those attributes and positive expectations, changing the job might also be caused by dissatisfaction in the former position (v. Schultzendorff, 1984). Because of these various reasons and expectations, non-family managers might favour family businesses instead of public companies. One should also take into consideration that in several countries family businesses constitute the majority of all businesses and are more employment intensive (higher percentage of overall cost are stemming from wages) than anonymous companies (IFERA, 2003a). It is obvious then that there are many middle-managers already employed in family businesses. Those managers already have experienced the peculiarities of family businesses; they therefore have more qualified information about family businesses and are thus a special case if they apply for a top-management position in a family business.

According to Dyer (1989), non-family executives often have views and assumptions of the world that differ from those of family business owners or owner managers. In this context, expectations are assumptions about how someone would act (anticipatory expectations) or how someone should act (normative assumptions) (Dahrendorf, 2006). These different expectations can be traced to organizational and occupational socialization experiences (Van Maanen & Schein, 1979; Dyer Jr., 1989; Hofmann, 1991; Le Breton-Miller et al., 2004). Family members do not just learn skills and practices that tend to be idiosyncratic to their particular family business, but they are taught to adhere to the family's values and to respect the role of the family (Dyer, 1989). In contrast, non-family managers are typically socialized collectively in classrooms where formal and generic skills are taught (Dyer, 1989). Consequently, education and experience with family businesses seem to differ between a family member and a non-family member. Since there are differences in managing a family business in contrast to non-family public companies (family influence, long term perspective, etc.), previous experience associated with family businesses might change a non-family executive's view.

Both the family business owner and the non-family executive nourish high expectations concerning a potential relationship. If they do not hope for advantages, they would hardly decide on entering into such a relationship. The non-family executive on the one hand searches and evaluates vacant positions according to his/her expectations. S/he might for example, include characteristics of the family business and of the family itself. The non-family executive's final decision can be based on criteria such as existing corporate governance bodies to delegate the family influence, communication mechanisms, an assimilation program, a employment contract with retirement benefits as well as transparency with regard to the financial state of the family business (Astrachan et al., 2002; Mertens, 2004). His/her decision-making may also be influenced by the board structure. Mixed boards with a dominating family manager might not be as attractive as mixed boards with an equal allocation of rights or even as pure non-family management (v. Schultzendorff, 1984; Hennerkes, 1998).

ISSN: 1796-9360

The potential candidate also takes into consideration his/her expectations concerning the family business owner or owner manager. Schultzendorff (1984) describes four different types of non-family executives by differentiating two important aspects in the relationship of both parties: (1) a low or high influence of the family business owner on the non-family executive's actions in context with (2) a strong or weak personal relationship between both parties. Becker et al. (2005) interviewed 29 family business owners and non-family executives. According to the non-family executives, family managers should hold a university certificate, have practical experience and a cooperative leadership style, be familiar with the peculiarities of the industry and market and show entrepreneurial engagement. With regard to social dimensions, they should be trustworthy, behave humanely, and be willing and able to delegate tasks, behave in a modest way, and have mastered communicative skills (Becker, 2005). The family business owner's expectations concerning the non-family executive depend on his/her own background and experience. Almost all of the publications reviewed stress the significance of personality and character as more important than professional attributes (Astrachan et al., 2002; Hennerkes, 1998; Habig & Berninghaus, 2004; Poza et al., 1997), although task competence is also key to the non-family executive role (Poza, 2004).

With regard to the candidate's social skills, family business owners often expect cultural fitness, sensibility to deal with family issues, understanding and sharing the family's values and interests out of an inner belief, trustworthiness, courage, credibility, reliability and humaneness. The candidate must fit into the composition of the management team. S/he has to demonstrate a mature personality by displaying self-confidence, authority, and modesty. At the same time, the candidate should be loyal, ready to subordinate and compromise with the family. Professional skills such as practical and leadership experience, industry knowledge, a sure sense of money and risk, entrepreneurial engagement, correctness and transparency are important (Becker et al., 2005). Since most of theses attributes of leadership, profiles and managerial styles seem to be similar to those job specifications of executives in non-family businesses as well, it is safe to say that general literature on psychology and human resource management can be consulted just the same (Rosenstiel, 1991; McClelland & Burnham, 1976). Further research is needed to separate the big heterogeneous group of family businesses into more homogeneous sub-groups and to define what type of non-family executive and/or kind of leadership behavior best fits the requirements of any particular sub-group. On top, future research will need to be anchored in theoretical concepts rather than purely reporting results from interviews without any clearly rooted leading question. It is this lack of theoretical funding in most of the papers reviewed that might have led to "shopping lists" rather than to sound concepts about distinct question in the area under research.

Finding the right person/the right company

The process leading to the selection of non-family executives has both a supply and a demand side. On the one hand the supply side is the potential and evoked set of executives. Their characteristics and selection criteria are important aspects to consider. What exactly motivates prospective executives to accept or reject a position as an executive in a particular family business? On the other hand, like in every business, the demand side also has to deal with "match ups" occurring during the recruiting process: (1) individual talent with organizational talent requirements and (2)

ISSN: 1796-9360

individual needs with the need fulfilling characteristics of the job (Wanous 1972). In the human resource management context these "match ups" are known as the 'person-job fit' and 'person-organization fit' (Kristof-Brown et al., 2005, p. 284).

Selecting, recruiting, and maintaining a non-family executive may be mirrored against the theoretical background of agency theory. Chua, Chrisman and Sharma (2003) as well as Gallo and Vilaseca (1998) suggest using the agency theory to explain the behavior and relationship between the owner and the non-family executive. Adam Smith (1776) was among the first to raise concerns whether hired managers would watch over other people's wealth with the same vigilance as if it were their own (also see Berle & Means, 1932; Jensen & Meckling, 1976; Eisenhardt, 1989). Agency theory addresses situations in which the two parties, the principal and the agent, seek to establish a relationship in order 'to perform some organizational tasks on the principal's behalf' (Dahlstrom & Ingram, 2003, p. 767). In this situation, the principal's selection of an agent or the agent's selection of a family business is a challenging decision. The pre-contractual evaluation of the employee or employer typically includes adverse selection problems, which refer to information asymmetry between principal and agent (Akerlof, 1970; Dahlstrom & Ingram, 2003; Mertens, 2004). These asymmetries consist of hidden characteristics, e.g., the missing information about the capability of the non-family executive (Mertens, 2004). According to Akerlof (1970) the adverse selection problem might occur when owner families assume the candidate's qualifications as meeting only the average. In this case they offer only average conditions matching those of the labour market. A manager with excellent qualifications would not work for a company offering only average conditions but would request excellent conditions in return. When family businesses offer only average circumstances, they will, in the best case, attract average managers. Even more likely, such businesses will draw managers with below average abilities. If the family reacts accordingly and adapts to the conditions of lower qualifications, the average requirements will further decrease until the family attracts only the least qualified applicants (Akerlof, 1970; Mertens, 2004). In order to avoid this adverse selection problem, methods to reduce pre-contractual information asymmetries, such as signalling, screening or due diligence through neutral third parties like former employers or employees are needed (Klein, 2004). Wrong choices, thus recognizing that there is no satisfactory realization of former expectations, will cause problems in the future relationship and will ultimately lead to the dismissal of the non-family executive. Such a change in leadership often results in high transaction costs, uncertainty, and the loss of reputation or satisfaction among third parties (Mertens, 2004).

Small family businesses are less experienced in recruiting non-family executives than larger family businesses (Bhattacharya & Ravikumar, 2004). Additionally, the larger and more complex the family business the more executives with a higher level of professionalism and external knowledge are required (Klein, 2000). Competencies and skills belong to the so-called capability resources. Therefore, the resource-based view might also be a valuable approach to analyse the role of non-family executives (Penrose, 1957; v. Wernerfelt, 1984; Habbershon & Williams 1999). Focusing on the recruiting process, many studies have been written by family business consultants in order to advise the business owner about how to organize the recruiting process (Aronoff & Ward, 2000; Hennerkes, 1998). They, along with other publications, suggest that management succession or employment of executives, whether internal

ISSN: 1796-9360

or external to the family, should be entrusted to the experienced hands of an independent, neutral, and unbiased committee (Astrachan et al., 2002). In the sample of Schultzendorff (1984) including interviews with 70 non-family executives, 70% of the candidates were recruited externally and 30% internally. The failure rate seems to be higher with external recruitment (Hennerkes, 1998). According to Dyer (1989) there should be an appraisal system to identify internal potentials with appropriate career aspirations. External candidates are often recruited out of the family business environment, e.g., from a branch or competition, from clients or suppliers (Hennerkes, 1998).

Contractual issues and compensation are further important issues in the recruiting process. The selection process, containing behavioral and personality assessments should aim at matching the expectations of both parties. A clear agreement on goals and a distinct understanding of competencies are desirable. In relation to the recruiting process, contractual issues play a major role. Although complete contracts are desirable, transaction costs of developing elaborate contracts may be too high (Mertens, 2004). Several publications deal with this issue (e.g., Poza et al., 1997; Gomez-Mejia et al., 2003; or especially McConaughy, 2000). In order to recruit and retain high-quality executives, family businesses must compete with compensation packages of non-family businesses. Fairness and level of compensation are often criticized by non-family executives. Some feel at the mercy of the owner's good will with regard to both compensation and career options (Poza et al., 1997; Poza, 2004). Compensation packages might include various incentives to attract and retain a non-family executive, e.g., shares of the family business, direct or indirect compensation, emotional or social compensation, or other incentives (McConaughy, 2000). It is reported that few family business owners allow non-family members to have shares in the family business (Hennerkes, 1998). Aronoff and Ward (1993) describe instruments to emulate equity, e.g., phantom stock. Anderson and Reeb (2003) discovered that pay premiums or financial returns in non-family businesses exceed those of family businesses by about 10%, and according to Werner and Tosi (1995), such premiums can reach 15.4 to 29.5%. Indirect incentives include a pension plan, health insurance, disability insurance, or life insurance. Non-family executives also appreciate a termination agreement including vesting schedules or termination payments (Astrachan et al., 2002). Compensation may also consist of incentives such as career options, emphasized merit or other benefits that increase the non-family executive's confidence and self-esteem. Especially in the context of family businesses, emotional and social compensation as well as psychological ownership can be relevant issues (Astrachan & Adams, 2005). It can probably be assumed that emotional returns compensate for lower financial returns. Therefore it could be argued that family businesses may offer different compensation packages comparable to public companies. Future research should evaluate whether and to what extend compensation packages in family firms include emotional compensation and whether this lowers financial compensation. A correlation between job satisfaction and compensation packages as well as perceived closeness to the owning family and level of allowed actions are promising research paths.

Mutual expectations in the recruiting process, the process itself, and contractual issues as compensation are mentioned in the literature. In addition to similar recruiting processes in all companies, the selection process of a family business seems to include further, more informal elements, e.g., a dinner at the family's home or other criteria, such as whether the husband or wife of the candidate also fits the company and family culture. Whether and how this differs in the recruitment processes of family businesses on one hand and anonymous companies on the other is another promising path to future research. Although communication during the recruiting process seems to be important to align the expectations before employment, research on such informal practices is neglected by the current literature.

Working together

Once the decision is made and recruiting is accomplished, the daily working process starts. For reasons of clarity of the arguments made let's assume that the non-family executive is engaged in the family business from outside the business. The non-family executive though is entrusted with managing the business operations at least in certain areas, e.g., very often as CFO (Gallo & Vilaseca, 1998). According to the non-family executive's individual expectations and personality, s/he will manage various tasks and problems (also see Rosenstiel, 1991). Again the model offered by agency theory can be used to explain behavior (Chua et al., 2003). Hidden actions and hidden information aggravate the family business owner's evaluation and control of the non-family executive's behavior and effort (Bhattacharya & Ravikumar, 2004). The owner has to tackle the so-called moral hazard problem as incomplete control and exogenous influences strengthen the non-family executive's autonomy. A non-family executive might be inclined to use this autonomy in order to serve his/her own interests and goals, which do not necessarily align with those of the family (Bhattacharya & Ravikumar, 2004). Controlling behavior or constantly remarking on how to behave would induce excessively high costs.

Stewardship theory, developed by Davis, Schoorman and Donaldson (1997), is an alternative approach to agency theory. The model of man applied in the stewardship setting essentially assumes an alignment of the behavior of the agent with the interests of the principal (Davis et al., 1997; Corbetta & Salvato, 2004). Apparently, not only family members might act as stewards and regard firm performance as an extension of their own well-being, as stated by Anderson and Reeb (2003), non-family executives might also behave similarly.

Both the family business owner and the non-family executive can behave according to different models of man, namely as agent or steward. This is the underlying assumption of the following matrix (see Fig. 2) by Davis, Schoorman, and Donaldson (1997, p. 39). When both parties exert an agency relationship (Quadrant 1), each party will try to minimize potential losses. The self-serving behavior of the non-family executive who is extrinsicly motivated as already described above, requires monitoring behaviour and consequent costs. Contrary to this, when both parties exert a steward relation (Quadrant 4) they share a high goal alignment. The steward owner trusts his steward manager who in turn tries to satisfy the owner by fulfilling his expectations. Consequently both are satisfied because of perceived expectations (Klein, 2005). They will not concentrate on minimizing costs or extensive control, but instead will concentrate on maximizing longterm outcome.

ISSN: 1796-9360

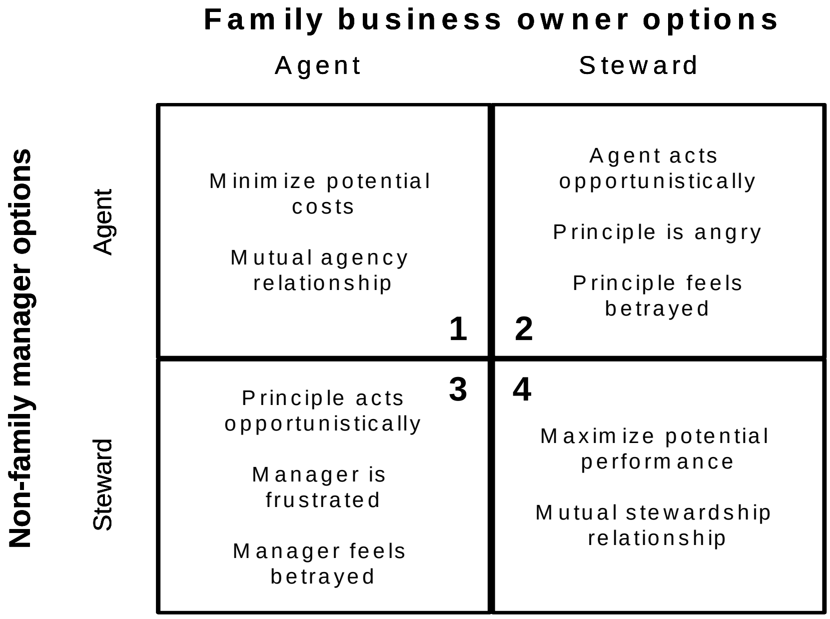

Figure 2: Options of behavior of a non-family executive and a family business owner (Source: Davis et al., 1997, p. 39; Klein, 2005, p. 194).

When the attitude of the family business owner and the non-family executive differ, dilemmas may occur. In quadrant 2, the family business owner favours a long-term-oriented and trustful cooperation with the executive. But, after being exploited and betrayed by agency-oriented behavior of the non-family executive, the family business owner will be dissatisfied because of unfilled expectations (Klein, 2005). In the last case (Quadrant 3), an intrinsically motivated non-family executive, who is willing to serve the company's interest, faces an agency situation. The family business owner monitors closely, which makes the manager feel frustrated and betrayed, too. Again, disappointment and frustration are causally related to unfulfilled expectations.

Comparing and assessing the initial expectations with perceived reality takes place during the post-contractual relationship (Klein, 2005). For a better understanding, we sum up the various components and stages of the relationship between the family business owner and the non-family executive. Within this process, the family owner evaluates the manager's behavior and outcome of a certain situation. In doing so, s/he looks for a match between actual performance and prior expectations. There are significant differences between perceptions of both groups in terms of efficient management and governance practices (Poza, 2004). Definitions of performance may also differ significantly (Venkatraman & Ramunujan, 1986; Chakravarthy, 1986). Besides quantitative and financial performance-goals set by any company, family businesses and their owning families tend to have more qualitative and non-financial performance-goals (Gómez, 2004). Those goals are, for example, keeping the business in the family, independence, family harmony, or shaping the company as a good corporate citizen (Gómez, 2004; Tagiuri & Davis, 1992). If actual performance and prior expectations do not match, the owner will be dissatisfied. If actual performance meets expectations s/he will be satisfied. Performance that exceeds expectations will positively surprise him/her.

ISSN: 1796-9360

Dissatisfaction and loss of trust of the owning family can depend on various factors (v. Schultzendorff, 1984), such as the way the non-family executive handles the financial affairs of the business (Jeuschede, 1998). One of the reasons most often mentioned by owners concerns the lack of identification with the business culture, for example in relation to internal and external appearance (Becker et al., 2005; Astrachan et al., 2002). Often owners are dissatisfied with the social qualifications of the non-family executive (Becker et al., 2005; v. Schultzendorff, 1984) and complain about him/her meddling in family matters (Aronoff & Ward, 2000; Becker et al., 2005). As in almost all companies, a further crucial aspect is the lack of professional and leadership competence, which sooner or later causes a non-family executive's dismissal (Aronoff & Ward, 2000; Jeuschede, 1998). Apart from approval or dismissal, there is also the possibility of showing no reaction at all. An interesting research path might be the integration of the concept of cognitive dissonance (Festinger, 1957). Literature on performance in public companies shows similar reasons for dismissing a CEO. Such a dismissal might be caused not only by poor organizational performance, but also by several socio-political forces, such as dealing with interpersonal relations, coalitions, and power. Four sources appear critical: a) the board's expectations and attributes, b) the board's allegiances and values, c) the availability of alternative candidates for the CEO, and d) the power of the incumbent CEO (Fredrickson et al., 1988).

Any owner's reaction can be communicated actively or passively. The non-family executive will interpret and evaluate the owner's reaction or the result of the communication process. Again, perceptions and prior expectations have to match and cause satisfaction. If they do not, the non-family executive will be dissatisfied (also see Savery, 1988). In many cases, non-family executives will be discontent because they are not granted opportunities for personal development, career opportunities or personal wealth (Aronoff & Ward, 2000; Poza, 2004; Poza et al., 1997). Their individual visions and goals differ from the reality they perceive (Poza, 2004). Dominant and highly influential owners limit the non-family executive's involvement in strategic planning and decision-making. Responsibilities according to talent, experience and education are not always present (Poza et al., 1997; Aronoff & Ward, 2000; Becker et al., 2005; v. Schultzendorff, 1984). Furthermore, non-family executives are demoralised when the owning family places one of the family members in a senior position and thus excludes a more capable and talented non-family executive with longer tenure or greater merit (Ibrahim & Ellis, 2004; Poza et al., 1997; Aronoff & Ward, 2000). Non-family executives disapprove when the family has a purely financial interest in the business and redistributes rents from their employees to themselves (v. Schultzendorff, 1984; Anderson & Reeb, 2003). Redistribution as well as the strict monitoring or abuse of employees for private purposes, adversely affects the employee's effort and productivity (Aronoff & Ward, 2000; Jeuschede, 1998; v. Schultzendorff, 1984). In addition, non-family executives do not want to be caught in the middle of a family conflict. They regret not being included in open communication and in sharing sensitive information (Astrachan et al., 2002; Jeuschede, 1998). Non-family executives do not always understand the owner's antipathy concerning innovation and growth, often explained by a strong emotional attachment (Poza, 2004; Poza et al., 1997; Aronoff & Ward, 2000; v. Schultzendorff, 1984). They also might not acknowledge the owner's personal or professional qualifications (Jeuschede, 1998; v. Schultzendorff, 1984).

ISSN: 1796-9360

The non-family executive's post-contractual uncertainty regarding the behavior of the owning family consists of a classic hidden-intention or hold-up-problem (Mertens, 2004). S/he might be caught in a relationship where the owning family is taking advantage of him/her by enforcing their own interests at his/her expense, possibly because of an unequal allocation of power (Klein, 2004). But it is rather difficult to exit this situation because this behavior is not necessarily a breach of the joint agreement. Additionally, quitting the business would be costly and in many cases not a worthwhile solution.

CONCLUSION

The analysis of the current state of research on non-family management in family businesses in order to come up with potentially interesting and relevant research questions was the main objective of this paper. Literature sufficiently demonstrates the importance of non-family executives in family businesses. Non-family executives are strongly represented in family businesses and their stakes seem to be increasing. The larger and more established the business, the more non-family executives hold leadership positions. Although this topic seems to have high relevance, in general, little research has focused on it as of yet.

With regard to non-family management, not only the perspective of the executive, but also that of the family business owner has been taken into consideration in order to analyze the particular relationship between both parties. Aspects such as general and special pre-contractual expectations and concerns of parties involved and their origins, the recruiting process, and finally, the mutual evaluation of performance and behavior, have been mentioned. This literature review applies the agency and stewardship theories to explain the relationship between the family business owner and the non-family executive.

This literature review contributes to management theory and practice. Owner-managers and family business researchers alike should pay more attention to the opinions and roles of non-family executives (Poza et al., 1997). As research on corporate governance and performance is steadily increasing, it can be assumed that research within this field will also be enhanced. This paper analyses, structures and summarizes the research done in the course of the last twenty years. Therefore it may serve as a reasonable starting-point for future research projects. In addition, this review helps to identify gaps in this field. Some possible areas for further research are suggested below.

Future research

The relationship between the non-family executive and the family business owner has great similarities to general employment and superior-inferior relationships in all kinds of companies. This paper gives a broad overview instead of focusing solely on family business related issues. Therefore it can be suggested that further research on non-family executives should concentrate on subjects specifically tailored to family involvement in the business by taking "family influence" as moderating variable into consideration.

ISSN: 1796-9360

In the context of future research, one of the most important requests of family business owners and consequently for researchers seems to be a reduction of the average failure rate of non-family executives. Failures, caused by dissatisfaction either by the owner, manager, or both, tend to have a high impact and transaction cost for the individual and the organization. Accordingly, further research should focus on initial expectations of both parties as well as on communication. The highly developed field of psychology offers rich concepts that can be important and reviewed in the light of the relation between the non-family manager and the family business and its owners. As well, the management of existing relationships come into play as well. How could a family business satisfy the expectations of a highly valued non-family executive? What are instruments (e.g., assessment center, self-evaluation, yearly conversation about goals, balanced scorecard for managers) that might help family businesses actively influence the perceived satisfaction with the position a non-family executive experiences?

Contrasting the considerations of an executive and a family business owner before entering a mutual relationship, one could assume different backgrounds between both parties. Related to those backgrounds, two further research ideas appear: (1) how does the biosocial history, consisting basically of genes and family influence, affect the entrepreneurial interest of individuals and (2) if the upbringings of both parties do NOT differ, i.e., if the non-family executive also descends from a family business, does the influence of his/her own entrepreneurial family experience lead to a different pattern in the relationship between both parties? Another, very different path for future research is to integrate the cultural background into the dynamics of the relationship. While agency theory might be more appropriate to explain difficulties and therefore solutions in individualistic cultures (Hofstede 1980), in collectivistic cultures other theoretical backgrounds like, for example, stewardship theory or the resource-based-view might be more powerful.

Another neglected research direction lies in the alignment of interests between the non-family executive and the family. Is goal alignment possible, and if so, how can it be achieved, for example, by formal or informal contracts, and does this alignment increase relative to experience with non-family executives (Jaskiewicz & Klein, 2007)? Just as there are succeeding family generations, one could say there are succeeding generations of non-family managers in the family business. In this respect then, does the first generation of non-family managers tend to have a higher failure rate than succeeding non-family executives, relative to the amount of experience the family business has with non-family executives?

Apart from these fascinating topics, we still need to lay the foundation for further research by providing the research community with basic descriptive data which up to now is still missing. Among the data we should look for there are (exemplary but not exhaustive):

- international comparisons on NFE, number, influence, level of education, tenure, gender, size of family businesses employing them, generation and age of the business, percentage of NFE in management boards around the world,
- conflicts arising with employing NFE (and whether the second and third employment comes with a lower level of conflict) and

ISSN: 1796-9360

- case studies on the recruitment process in order to learn how e.g., the values of the owners influence the way the recruiting process is shaped (informal vs. formal, top-down bottom-up).

All in all, it is undoubtedly true that the topic of non-family executives in family businesses is a promising field of research. This paper is a stepping stone along the path of creating a deeper understanding of this area.

REFERENCES

Akerlof, G. A. 1970. The Market for "Lemons": Quality Uncertainty and the Market Mechanism, Quarterly Journal of Economics, Vol. 84, pp. 488-500.

Anderson, R. C., and Reeb, D. M. 2003. Founding Family Ownership and Firm Performance: Evidence from the S&P 500, The Journal of Finance, Vol. 58, Nr. 3, pp. 1301-1328.

Anderson, R. C., and Reeb, D. M. 2004. Board Composition: Balancing Family Influence in S&P 500 Firms, Administrative Science Quarterly, Vol. 49, Nr. 2, pp. 209-237.

Aronoff, C. E. 1998. Megatrends in Family Business, Family Business Review, Vol. 11, pp. 181-185.

Aronoff, C. E., and Ward, J. L. 1993. Family Business Compensation, FB Leadership Series, Marietta, GA, US.*

Aronoff, C. E., and Ward, J. L. 2000. More than Family: Non-Family Executives in the Family Business, FB Leadership Series, Marietta, GA. US.*

Astrachan, J. H., Keyt, A., Lane, S., and Yarmalouk, D. 2002. Non-Family CEO's in the Family Business: Connecting Family Values to Business Success, Proceedings FBN-ifera Helsinki, 11-14th of Sept. 2002, pp. 183-199.

Astrachan, J. H., and Adams III, A. F. 2005. The 'Cost of Capital' in Privately Held Firms: Assessing the Impact of 'Non-Financial' Returns, Babson Research Conference 2005.

Becker, F., Hensoler, N., Bielstein, M., Cöllen, C., Ebel, N., Knoll, H., and Krumme, E. 2005. Fremdmanagement in Familienunternehmen, Paper for Discussion No. 531, University of Bielefeld, Germany.

Berle, A. A., and Means, G. C. 1932. The Modern Corporation and Private Property, Harcourt, Brace & World, New York, US.

Bhattacharya, U., and Ravikumar, B. 2004. From Cronies to Professionals: The Evolution of Family Firms, Working Paper, January 2004, Indiana University/ University of Iowa, US.

ISSN: 1796-9360

Bird, B., Welsch, H., Astrachan, J. H., and Pistrui, D. 2002. Family Business Research: The Evolution of an Academic Field. Family Business Review, Vol. 15, pp. 337-350.

Chakravarthy, B. S. 1986. Measuring Strategic Performance, Strategic Management Journal, Vol. 7, pp. 437-458.

Chua, J. H., Chrisman, J. J., and Sharma, P. 2003. Succession and Nonsuccession Concerns of Family Firms and Agency Relationship with Nonfamily Managers, Family Business Review, Vol. 16, pp. 89-107.

Corbetta, G., and Salvato, C. 2004. Self-Serving or Self-Actualizing? Models of Man and Agency Costs in Different Types of Family Firms: A Commentary on "Comparing the Agency Costs of Family and Non-Family Firms: Conceptual Issues and Exploratory Evidence", Entrepreneurship: Theory & Practice, Vol. 28, pp. 355-362.

Dahlstrom, R., and Ingram, R. 2003. Social Networks and the Adverse Selection Problem in Agency Relationships, Journal of Business Research, Vol. 56, pp. 767-775.

Dahrendorf, R. 2006. Homo Sociologicus: Ein Versuch zur Geschichte, Bedeutung und Kritik der Kategorie der sozialen Rolle, VS Verlag, 16th Ed., Wiesbaden, Germany.

Davis, J., Schoorman, F. D., and Donaldson, L. 1997. Toward a Stewardship Theory of Management, Academy of Management Review, Vol. 22, pp. 20-47.

Denison, D., Lief, C., and Ward, J. L. 2004. Culture in Family-Owned Enterprises: Recognizing and Leveraging Unique Strengths. Family Business Review, Vol. 17, pp. 61-70.

Dyer Jr., W. G. 1989. Integrating Professional Management into a Family Owned Business, Family Business Review, Vol. 2, pp. 221-235.

Eckrich, C., and McClure, S. L. 2004. A Non-Family Employee's Guide to Success, FB Leadership Series, Marietta, GA.*

Eisenhardt, K. M. 1989. Agency Theory: An Assessment and Review, Academy of Management Review, Vol. 14, pp. 57-74.

Festinger, L. 1957. A Theory of Cognitive Dissonance, Stanford, CA: Stanford University Press.

Fredrickson, J. W., Hambrick, D. C., and Baumrin, S. 1988. A Model of a CEO Dismissal, Academy of Management Review, Vol. 13, pp. 255-270.

Gallo, M. A. 1991. Family Business: Non-Family Managers, Research Paper No. 220, IESE Barcelona, Spain.

ISSN: 1796-9360

Gallo, M. A., and Vilaseca, A. 1998. A Financial Perspective on Structure, Conduct and Performance in the Family Firm: An Empirical Study, Family Business Review, Vol. 11, pp. 35-47.

Gomez-Mejia, L. R., Larraza-Kintana, M., and Makri, M. 2003. The Determinants of Executive Compensation in Family-Controlled Public Corporations, Academy of Management Journal, Vol. 46, pp. 226-237.

Gómez, G. 2004. Typologies of Family Business: A Conceptual Framework Based on Trust and Strategic Management, In: Family Business Casebook Annual 2004, pp. 27-52.

Habbershon, T.G., and Williams, M.L. 1999. A Resource-Based Framework for Assessing the Strategic Advantages of Family Firms, Family Business Review, Vol. 12, Nr. 1, pp. 1-25.

Habig, H., and Berninghaus, J. 2004. Die Nachfolge in Familienunternehmen ganzheitlich Regeln, Springer Verlag, Berlin et al., Germany.*

Hennerkes, B.-H. 1998. Familienunternehmen Sichern und Optimieren, Campus Verlag, Frankfurt/ New York, Germany.*

Hofmann, M. 1991. Tiefenpsychologische Perspektiven der Führung von Mitarbeitern, in: v. Rosenstiel, Regnet and Domsch 1991. Führung von Mitarbeitern – Handbuch für erfolgreiches Personalmanagement. Schäffer Verlag, Stuttgart, Germany, pp. 25-34.

Hofstede, G. 1980. Cultures' Consequences: International Differences in Work Related Values, Newbury Park, CA: Sage.

Ibrahim, A. B., and Ellis, W. H. 2004. Family Business Management - Concepts and Practice, Kendall/Hunt, 2nd Ed., Dubuque, Iowa, USA.

IFERA 2003a. Family Businesses Dominate, Family Business Review, Vol. 16, pp. 235-239.

IFERA 2003b. Quality Research Guidelines, Family Business Review, Vol. 16, pp. 109-111.

Jaskiewicz, P., and Klein, S.B. 2007. The Impact of Goal Alignment on Board Composition and Board Size in Family Businesses, Journal of Business Research.

Jensen, M. C., and Meckling, W. H. 1976. Theory of the Firm: Managerial Behavior, Agency Costs and Capital Structure, Journal of Financial Economics, Vol. 3, pp. 305-360.

Jeuschede, G. 1998. Suchen, Auswählen, Gewinnen und Halten des Fremdgeschäftsführers, in: Hennerkes and Kirchdörfer 1998. Unternehmenshandbuch Familiengesellschaften. Carl Heymanns Verlag, Köln et al., Germany, pp. 769-778.*

ISSN: 1796-9360

Klein, S. B. 2000. Family Business in Germany: Significance and Structure, Family Business Review, vol. 13, pp. 157-181.

Klein, S. B. 2004. Familienunternehmen - Theoretische und empirische Grundlagen. Gabler Verlag, 2nd Ed.,Wiesbaden, Germany.

Klein, S. B. 2005. Beiräte in Familienunternehmen – Zwischen Beratung und Kontrolle. Zeitschrift für KMU und Entrepreneurship, Vol. 53, pp. 185-207.

Klein, S. B., Astrachan, J. H., and Smyrnios, K. X. 2005. The F-PEC Scale of Family Influence: Construction, Validation, and Further Implication for Theory. Entrepreneurship: Theory & Practice, Vol. 29, pp. 321-339.

Kristof-Brown, A. L., Zimmerman, R. D., and Johnson, E. C. 2005. Consequences of Individuals` Fit at Work: A Meta-Analysis of Person-Job, Person-Organization, Person-Group, and Person-Supervisor Fit, Personnel Psychology, Vol. 58, pp. 281-342.

Le Breton-Miller, I., Miller, D., and Steier, L. P. 2004. Toward an Integrative Model of Effective FOB Succession, Entrepreneurship: Theory & Practice, Vol. 28, pp. 305-328.

Lussier, R. N., and Sonfield, M. C. 2004. Family Business Management Activities, Styles and Characteristics: A Correlational Study, Mid-American Journal of Business, Vol. 19, pp. 47-53.

MassMutual/Raymond Institute 2003. (2002 American Family Business Survey).

May, P., Redlefsen, M., and Knappe, C. 2005. Fremdmanager in Familienunternehmen – Ergebnisse und Handlungsempfehlungen, Study of INTES Akademie für Familienunter-nehmen, Bonn, Germany.*

McClelland, D. C., and Burnham, D. H. 1976. Power is the Great Motivator, Harvard Business Review, March/April 1976.

McConaughy, D. L. 2000. Family CEOs vs. Nonfamily CEOs in the Family-Controlled Firm: An Examination of the Level and Sensitivity of Pay to Performance. Family Business Review, Vol. 13, pp. 121-131.

Mertens, R. 2004. Effiziente Gestaltung der familienexternen Unternehmernachfolge - Fremdmanagement, Stiftung, MBO/MBI, Verlag Dr. Kovač, Schriftreihe Finanzmanagement No. 23, Hamburg, Germany.

Penrose, E. 1959. The Theory of the Growth of the Firm, Oxford.

Poza, E. J. 2004. Family Business,Thomson South Western, Mason Ohio, USA.

Poza, E. J., Alfred, T., and Maheshwari, A. 1997. Stakeholder Perceptions of Culture and Management Practices in Family and Family Firms - A Preliminary Report, Family Business Review, Vol. 10, pp. 135-155.

Rosenstiel, L. v. 1991. Grundlagen der Forschung, in: v. Rosenstiel/ Regnet/ Domsch (1991): Führung von Mitarbeitern – Handbuch für erfolgreiches Personalmanagement. Schäffer Verlag, Stuttgart, Germany, pp. 3-24.

Savery, L. K. 1988. Reactions to Incongruency: Job Expectations and Reality, Journal of Managerial Psychology, Vol. 3, pp. 8-12.

Schulzendorff, D. v. 1984. Fremdmanager in Familienunternehmen - Eine empirische Analyse. Dissertation No. 922, Hochschule St. Gallen, Switzerland.

Smith, A. 1776. An Inquiry into the Nature and Causes of the Wealth of Nations, Methuen & Co., Ltd., Edwin Cannan (Ed.), 5. Auflage 1904, London.

Tagiuri, R., and Davis, J. A. 1992. On the Goals of Successful Family Companies, Family Business Review, Vol. 5, pp. 43-62.

Van Maanen, J., and Schein, E. H. 1979. Toward a Theory of Organizational Socialization, Research in Organizational Behavior, 1, Greenwich, Conn.: JAI Press.

Venkatraman, N., and Ramanujan, V. 1986. Measurements of Business Performance in Strategy Research: A Comparison of Approaches, Academy of Management Review, Vol. 11, pp. 801-814.

Wanous, J. P. 1972. Matching Individual and Organization: The Effects of Job Previews, Academy of Management Proceedings 1972, pp. 166-169.

Weimer, J., and Pape, J. 1999. A Taxonomy of Systems of Corporate Governance, Corporate Governance - An International Review, Vol. 7, pp. 152-166.

Welch, J. 2005. Winning. New York: HarperCollins Publishers.*

Welch, J., and Welch, S. 2006. The Nitty-Gritty on Nepotism. Business Week. New York: Aug. 21, 2006. Iss. 3998. p. 144.*

Werner, S., and Tosi, H. 1995. Other People's Money: The Effects of Ownership on Compensation Strategy and Managerial Pay. Academy of Management Journal, Vol. 38, pp. 1672-1691.

Wernerfelt, B. 1984. A Resource Based View of the Firm, Strategic Management Journal, Vol. 5, pp. 171-180.

Witt, P. 2004. The Competition of International Corporate Governance Systems - A German Perspective, Management International Review, Vol. 44, Nr. 3, p. 309.

* = Advisory literature