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EDITOR'S NOTE

The aim of the EJFBS is to publish theoretical and empirical articles, case studies, and book reviews on family business topics. The EJFBS will be available with open access at the journal home page.

In this issue, we will have the following family business contributions:

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INTERNATIONAL STRATEGIC ALLIANCES AND THE INTERNATIONALIZATION PROCESS: THE FAMILY OWNERSHIP EFFECT

Summary of PhD thesis,
presented at the 8th Annual Conference of
International Family Enterprise Academy,
2nd – 5th of July 2008, The Netherlands

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Abstract

This study examines whether the ownership structure of Italian firms affects the internationalization process of firms that completed equity international strategic alliances (EISA). This paper provides a comparison of the internationalization intensity, the internationalization commitment, the choice of country and the growth of organisation between family businesses and non-family businesses. Financial data of Italian firms that completed an EISA between 2003 and 2006 were used. The analysis of data shows that family ownership has an effect on the internationalization intensity. In fact, family businesses are more internationalised than non-family businesses if firms have completed an equity international strategic alliance.

Key words: Alliance, family business, ownership structure, internationalization process.

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INTRODUCTION

This work is a study which examines the effect of family ownership structure on the internationalization process of Italian enterprises with equity international strategic alliances. Using an inductive approach, this research seeks to determine if family ownership structure influences the internationalization intensity (export sales euro as a percentage of total sales euro), internationalization commitment, the choice of country and the organisational growth of Italian internationalized firms with Equity international strategic alliances (EISAs). The goal is to understand if the family ownership effect exists.

This paper is divided in four sections: the literature analysis, the method and data description, the empirical analysis and results and the conclusions. In the first section, the international strategic alliances (ISAs) are identified together with which form they assume. The analysis of literature is developed considering ISA as a way of market entry. In fact, when enterprises form strategic alliances with local partners they expand their activity across the board. The assumption is that Italian enterprises also internationalize through international strategic alliances (ICE 2005).

This phenomenon is often examined using the eclectic approach. This approach seeks to explain why international strategic alliances are important and which of their features influence the choice of the ISA forming process. The literature on family business examines the entrepreneurial behaviour of family businesses compared to non-family one, and analysing their differences. The relevant question of family business definition is discussed and it includes the direct and indirect ownership.

The analysis of data compares the differences between the groups of family and non-family businesses to understand what the ownership effect is on internationalization intensity, internationalization commitment and the localisation of an EISA. These variables are assessed using existing measures which have been adapted for this study. This research finds an influence of ownership structure on the internationalization process under specific conditions.

The list of family and non-family businesses with equity international strategic alliances and their financials is available in the data base of BvD Publisher. The sum of revenue of these enterprises is 6% of GDP 2006, where data are from 2003 to 2006. The data were examined using balance sheets of enterprises from MBRES, of Mediobanaca, and from the Italian Department of Commerce. New research opportunities are suggested in the conclusion.

LITERATURE REVIEW

International Strategic alliances

Strategic alliances can be made with foreign partners to achieve the benefits of a global strategy (Nielsen 2003). “International strategic alliances” (ISA) are defined as international inter-company cooperative arrangements (Urban and Vendemini 1992, Lu and Burton 1998). This kind of strategic alliance is defined as a business form of cooperation between two or more industrial corporations of different countries, whereby each partner seeks to augment its competences by combining its resources with those of the other partners (Jain 1987, Lu and Burton 1998). Alternatively ISA has been defined as any form of commercial activity across national boundaries involving two or more organizations. The feature of ISAs is the “long-term” cooperation between two or more independent firms headquartered in two (bi-national) or more (multinational) countries. ISAs are different from open-market transactions, which are minimal short-term cooperations beginning and ending with the exchange of some economic goods between two firms. No strategic alliances increase the efficiency for both sides, and have little potential significance to the strategic positioning of either organization (Contractor and Lorange 1988).

The drivers of an ISA are based on a variety of theoretical perspectives including transaction cost, resource dependency, organizational learning and strategic positioning theories (Nielsen 2003). Collusion, entry deterrence, erosion of competitors’ positions or other means of augmenting market power are the more frequent incentives to collaborate between enterprises (Peridis 1992).

When a firm decides to form an ISA it has to decide the form, the object, the country and partner. The three principal alliance forms are: traditional joint ventures, minority equity alliances and non-equity alliances (Contractor and Lorange 1988). They are strategic if they let the firm maintain its identity, for example, acquisition is not a strategic alliance (Yoshino and Rangan 1995). Traditional joint ventures are alliances with two or more partners to create a new incorporated firm in which each has an equity position and representation on the board of directors: dependent joint ventures, dominant parent ventures, split-control ventures and shared management ventures. Minority equity alliances are similar to non-equity alliances except that one parent has taken a minority equity position in the order: passive minority equity alliance and multiple-activity minority equity alliance. Non-equity alliances are agreements between partners to cooperate in some way, but they do not involve the creation of a new firm, nor does either partner purchase equity in the other: trading alliance, coordinated- activity alliance, shared- activity alliances and multiple activity alliance (Contractor and Lorange 1988). When a firm explores new opportunities, it prefers equity alliances to non-equity alliances, even if it obtains less financial flexibility, because of the features of enterprise and its environment (Ireland, Hitt and Webb, 2006).

The object of alliances varies with the phases of the value added chain and so cooperations are R&D contracts, joint R&D, joint production, joint marketing and promotion, enhanced supplier partnership, distribution agreements, and licensing agreements. (Yoshino and Rangan 1995, Das and Teng 2000).

The choice of partner depends on the goal and object of the ISA, where the partner is compliant or complementary to the personality of the firm (Casson and Mol 2006).
The choice of country is oriented to the emerging markets or to developed markets, investors continue to view emerging markets as the markets for investing and making alliances. In terms of the investment locations, selected as the most attractive, four of the top five countries ranked by the percentage of responses from experts are in the developing world. China is considered the most attractive location by 85%. India’s ranking has increased suddenly given that until recently direct investment flows have been modest at best (UNCTAD 2005).

Emerging markets have different contexts from developed markets. A recent Harvard Business School study has identified the four fastest-growing markets in the world: China, India, Brazil and Russia. In these markets, the only way to enter is often through the establishment of alliances with a local partner (Khanna and Palepu 2005) Table 1.

Table 1 Modes of entry (Khanna and Palepu 2005).

US / EU	Brazil	Russia	India	China
Open to all forms of foreign investment except when governments have concerns about potential monopolies or national security issues.	Both Greenfield[1] investment and acquisitions are possible entry strategies. Companies team up with local partners to gain local expertise.	Both Greenfield investment and acquisitions are possible but difficult. Companies form alliances to gain access to government and local inputs.	Restrictions on Greenfield investments and acquisitions in some sectors make joint ventures necessary. Red tape hinders companies in sectors where the government does allow foreign investment.	The government permits Greenfield investments as well as acquisitions. Acquired companies are likely to have been state owned and may have hidden liabilities. Alliances let companies align interests with all levels of government.

Internationalization process

Processes of internationalization are defined in different ways because there are different approaches to studying enterprises (Fletcher, 2001). In the eclectic approach, firms have three internationalization strategies: exporting, foreign direct investments and alliances (Lu and Beamish, 2001). These are not mutually exclusive even if they are distinctly different (Lu and Beamish, 2006). There are several reasons why firms pursue internationalization and there is a connection between them and the mode chosen. When internationalization is only on trading, the enterprise could have domestic production and foreign market, that can be direct or can be developed through external arrangements or joint ventures (John, Ietto-Gillies, Cox and Grimwade 1997). When enterprises want to exploit a market and minimize transaction-related risks, they choose foreign direct investment (Hennart, 1982; Rugman, 1982). In contrast, they choose alliances if integration between the partners is high and the uncertainty and urgency in decision making characterise venture business (Doz & Hamel, 1998; Arino & Reuer, 2004). Many industries, economies of scale and scope can only be achieved by expanding the potential customer base well beyond domestic markets, requiring that firms enter international markets through strategic alliance, mergers or acquisitions, or joint ventures in order to operate efficiently (Rondinelli and Black, 2000).

Competitive advantage can be gained from the synergies of having operations in many countries, for instance, those synergies gained by arranging the location of as-

[1] Greenfield investment refers to investment in new facilities and the establishment of new entities through entry as well as expansion, while M&As refer to acquisitions of, or mergers with, existing local firms.

sets in different places for different stages of the sourcing-production-distribution process. Firms can, for example, obtain raw materials in countries where prices are lowest, manufacture components in other countries offering low production costs, assemble components into finished products in countries with skilled labour and good support facilities, and distribute and sell those products in yet other countries where there is a strong consumer demand (Bartmess and Cerny 1993).

International expansions present limits for a firm, whereby they cannot all be successful (Burpitt and Rondinelli 2004). For most companies, and especially for small and medium-sized firms, expansion into unknown markets in countries with different economic, political, and social conditions and with unfamiliar cultural and business practices can be risky and expensive, especially if they allow the learning-by-doing process, because it could take time and result in a mistake (Dierick and Cool 1989). The alliance can succeed if potential problems, such as goal conflicts, lack of trust, understanding and cultural differences and disputes over the division of control, do not emerge (Lu and Beamish 2001).

Firms are continuing to increase their sales and operations across national borders; however a firm has to face two important decisions: one is about strategy decision and the other is location entry. The country is chosen by enterprises looking at market size, physical and political infrastructure, education levels and income pro capite (Ender and Shapiro, 2000). They decide between several entry strategies: no international involvement, licensing and franchising, exporting direct investment via a joint venture or the establishment of a wholly owned subsidiary (Piero Morosini, 2006).

Family ownership effect

Internationalization strategy decisions are influenced by the features of firms (Dunning, 1988), so ownership structure could influence the internationalization process.
Ownership significantly influences a firm's strategic choices (Zahra, 1996; Zahra and Pearce, 1989). When researchers compare the degree of internationalization between family and non-family business they find that the family businesses have a lower degree. When Fernandez and Nieto (2005) compared internationalization in family and non-family small and medium enterprises, they found that the proportion of export firms and export sales is much lower in family-run than in non-family businesses. Both family and non-family businesses record an increase in extent of internationalization if they plan exports (Graves and Thomas 2006).

The power of family to decide the process of internationalization is related to the percentage of stakes owned by the same family, the degree of internationalization is directly proportionate to the family ownership if the family is oriented towards an internationalization strategy (Zahra, 2003).

If firms have stable relationships with other firms, they increase the available information on international markets, the opportunities offered by the markets (Bonaccorsi, 1992) and their exports increase (Fernandez and Nieto, 2005), so the organisation grows.

In a study on internationalization process via strategic alliances, Gallo, Arino, Manez and Cappuyns (2005) point out that a family business will develop the strength to form a strategic alliance if the firms want to grow through the acceptance of indebtedness or a new equity partner. Several drivers motivate a firm to form an equity ISA, where ISA represents a way to internationalise or increase commitment in the process. The commitment in the internationalization process depends on the kind of strategic alliance choice, as well as other factors. Strategic alliances can be contractual or based on equity. When contractual, the level of commitment is lower than for one based on equity. Joint ventures require more commitment than a minority stake acquisition. Family firms with non family owners in the equity are more oriented towards EISA, because they are less frightened to lose control, so the decision to form a joint venture or acquire a minority stake depends on the ownership structure (Gallo, Arino and Manez, 2005).

The effect of ownership on international strategic alliances and the internationalization process

As suggested by Zahra (2003), it is important to explore if the choice of the mode of entry into international markets is influenced by contexts, ownership structures and in family businesses, by family dynamics

This study examines the ownership structure effect in firms with equity international strategic alliances, whereby family-run firms differ from the non-family firms with regard to the intensity of internationalization, internationalization commitment, the choice of country and the growth of the organisation.

The studies on family businesses with regards to the internationalization process often reveal a low degree of internationalization when compared to non-family businesses (Gallo, Arino, Manez, 2005; Zahra, 2003). The degree of internationalization was measured by the percentage of foreign sales in total sales (Lu and Beamish, 2001; Gallo and Pont, 1996; Zahra, 2003). In recent literature the degree of internationalization is measured using two factors: internationalization intensity (export sales euro as a percentage of total sales euro) and scope (number of foreign countries sold to) (Graves and Thomas 2008).

In this study one of those factors: the internationalization intensity, is observed. Family businesses with equity international strategic alliances have a greater propensity to internationalize. This analysis of family firms behavior should confirm the major incidence of foreign sales on total sales of family businesses or it could reveal a different result.

Hypothesis 1: Family businesses are less internationalized than non-family businesses

The definition of a family business is often different in literature. There are broader or narrower definitions (Astrachan & Shanker, 2003). The family business definition normally includes the presence of a family member in the management team besides ownership, and the share of capital owned by family members cannot be less than a given percentage.

According to GEEF (European Group of Owner Managed and Family Enterprises), Casado defines a family business when in a company:

1. *a majority of (direct or indirect) voting rights are held by the person who founded the company and owns the company's share capital, or by this person's spouse, parents or children, or children's direct heirs;*
2. *at least one family member or relative is actively involved in managing or running the company;*
3. *in a public limited company, the person who founded or acquired the company, or this person's family or descendants, hold at least 25 per cent of the voting power of the shares.*

The family can influence a business through its ownership, governance, and management involvement (Astrachan, Klein, Smyrnios, 2002). Klein (2000) supports that these means are interchangeable and additive. In literature every author tends to give a different relevance to these issues. The ownership structure analyzed is usually the direct one and the indirect is not taken into consideration. This paper considers direct and indirect ownership. In fact Faccio and Lang (2002, p.19) consider family firms as the firms also owned by a family holding, whereby the family controls the firm through a "multiple control chain". A family-run firm is classified as such if a family has strategic control of the business with ownership of share of capital and members of family in the management team and the CEO (Klein, 2000). In Graves and Thomas (2006), a family business must have a family ownership of more than 50% and one or more members in the management team. Zahra (2003) singles out family businesses through two variables, one is the share of capital owned by the family and the other is the share of capital owned by the manager, who is also a family member. In this paper, the firm is classified as a family one when the share owned, directly and indirectly[2], by family is more than 25% (Klein, 2000) and one member of the family is the president or on the board.

Firms choose equity international strategic alliances (EISA) when they form alliances to explore market opportunities successfully. The decision of sharing equity ownership requires a higher level of commitment in comparison to non-equity alliances (Ireland, Hitt, Webb, 2006). Similarly, a joint venture with 50% of ownership is a more important investment relative to a minority acquisition. Gallo, Arino and Manez (2004) point to a certain parallelism between the level of commitment to internationalization and the structure of strategic alliances. This paper examines whether family ownership has an effect on the commitment towards internationalization of firm.

Hypothesis 2: Family businesses have different preferences when choosing the ownership structure of an equity international strategic alliance (EISA).

Family businesses choose EISA because they don't want to lose control of ownership (Gallo, Arino and Manez, 2004). If the environment is uncertain and dynamic firms decide to form an equity strategic alliance instead of non-equity, they can control or develop a deal in a better way (Ireland, Hitt, Webb, 2006). The majority of countries in this paper are likely to be at risk because the enterprises selected have formed an equity alliance. The rank of risk of country was used to assess if family ownership has

[2] If family owns x% of the family holding and family holding owns y% of firm, family has an ownership control = direct control + indirect control, where indirect control is the minimum value between x% and y% (Faccio and Lang, 2002).

an effect on choice of country in which firms invest to explore the market. The localization of EISA is an important phase in forming the alliance. The firms in the list probably chose the country without looking at its risky rank.

Hypothesis 3 Family businesses form equity international strategic alliances in risky countries just as do the non-family businesses.

Sales are a financial outcome that can measure the growth of an organization and is an accepted outcome used throughout the strategic alliance and family business literatures. It is significant to examine whether a family business grows more than a non-family business in the list selected.

Family businesses are more concerned with the growth of the business rather than having high levels of profit (Devis and Haveston, 2000). Thus, in this paper, business growth is measured by sales growth. Consistent with Lu and Beamish (2001) who found that firms record a lower profit after forming an ISA, even if they use different financial outcomes to verify it, it is asserted that all enterprises will lose sales.

Hypothesis 4 Family businesses lose revenue as much as non-family ones after forming EISA.

The influence of family ownership and entrepreneurship is studied throughout the family business literature. A model was developed grouping family businesses and considered if they have a direct ownership, a direct and indirect or just indirect ownership. The following groups were examined:

1. family businesses owned just by family holding,
2. family businesses owned by family members and family holding and
3. family businesses owned just by family members;

Hypothesis 5 Family ownership influences the preference of country where the EISA is formed.

METHOD AND DATA DESCRIPTION

To understand if there is an effect of family ownership on diverse variables, researchers typically separate family businesses and non-family businesses by a variable with dichotomy behaviour, after defining the family business. To compare two groups, and to be consistent with past research, this study adopts non-parametric statistical techniques to accommodate non-normal distributions (Grave and Thomas 2004).

The aim of this research is to understand how ownership structure of Italian firms with equity international strategic alliances influences the internationalization process. The list of Italian enterprises with equity international strategic alliances is available in the data base Zephyr of BVD, which contains data of international strategic alliances from 2003. As the financial and ownership structures of enterprises in the list were incomplete, data were integrated with the MBRES data base of Mediobanca (Calepino, R&S and Settori on-line), and CONSOB (www.consob.it). The financials data of the databases do not show foreign sales that are disclosed in balance sheets of enterprises. Balance sheets were derived from enterprise web sites and the Italian Department of Commerce (Italian institution that collects all balance sheets in Italy).

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Manual cross checks were then conducted by the researcher to account for missing data. Here every family-firm's balance sheet was assessed to determine if a family member was a president or a CEO member.

The data set is composed of 50 Equity International Strategic Alliances formed by Italian enterprises not in financial industries from 2003 and 2006. The enterprises in the list have a mean of revenue of four thousand million euro per year.

The financials data of enterprises are operating revenue, foreign revenue, EBITDA, EBIT, profit before tax, profit after tax, total asset and ownership structure. Other information that was used included: activity of enterprises, activity of partner or acquired enterprises, country of partner or acquired enterprises, year in which international strategic alliance was completed, type of strategic alliance, and assessment of whether the enterprise was a joint venture or a minority stake.

The analysis compares the existing differences between the groups of non-family and family businesses to understand the ownership structure effect on the internationalization intensity, internationalization commitment and the localization of an EISA. The variables (see Table 2) compared are the internationalization intensity measured by the percentage of foreign sales of total sales, and level of commitment in internationalization, as measured by the share of capital owned by firms in the EISA. Localization is measured by the risk of country in which enterprises invest and the business growth measured by sales growth.

Table 2 Measure of variables.

Variables	Measure	Authors
Internationalization intensity	The percentage of foreign sales (foreign sales divided by total sales)	Graves, Thomas 2008
Commitment of internationalization	Share of capital owned by firms in the equity ISA	Gallo, Arino, Manez and Cappuyns, 2006
Risk taking	Country risk rank	The PRS group, source suggested by Brealey and Meyers, 2003
Growth	Revenue growth	Devis and Haveston, 2000
Family ownership	Two conditions have to be satisfied: 1. Shares directly and indirectly owned by family is > 25% 2. one member on the board note: indirect ownership = (the minimum of the shares owned by the family in the family holding and the family holding in the enterprises)	GEEF, Cosado 2008, Klein 2000, Faccio and Lang 2002

ANALYSIS AND RESULTS

The list of Italian firms with equity international strategic alliances (EISA) formed in the period between 2003 and 2006 is composed of 32% family firms and 68% non-family firms. They formed 50 EISA in 25 countries.

In the list of Italian firms with equity international strategic alliances (EISA) formed in the period between 2003 and 2006, the internationalization intensity has increased in most of the firms, just in a few firms there is a decrease. Figure 1 shows the comparison of the internationalization intensity in the first year (2003) and the last one (2006).

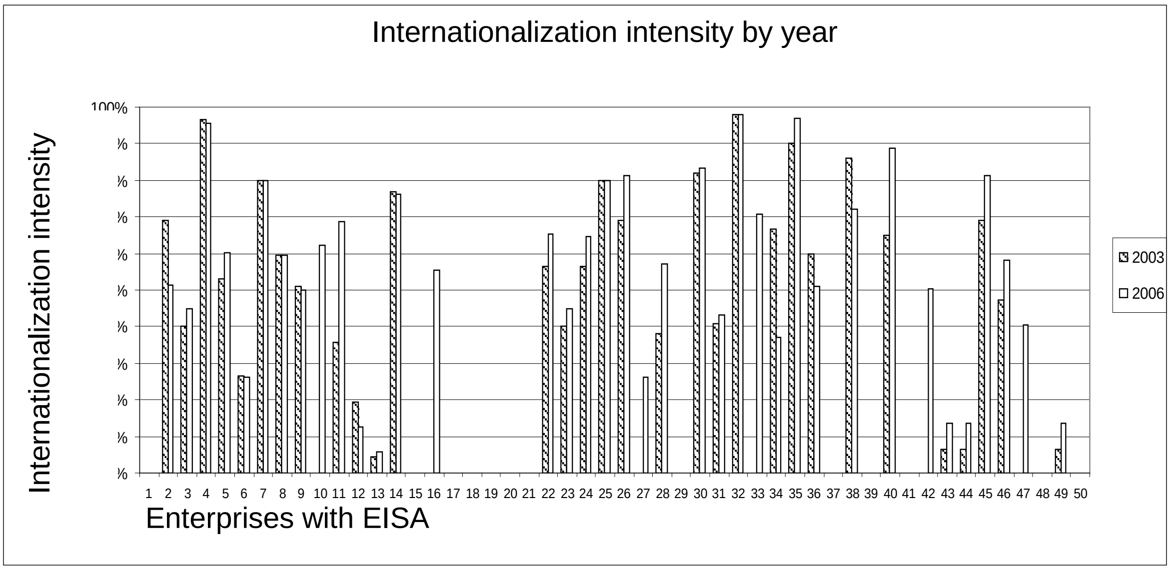

Figure 1. Internationalization intensity by year.

As shown in Figure 1, the comparison between the two groups shows that non-family businesses are less internationalised than family businesses. It can be explained by the fact that family businesses with EISA plan the internationalization process, and this implies a high likelihood of increasing foreign revenue.

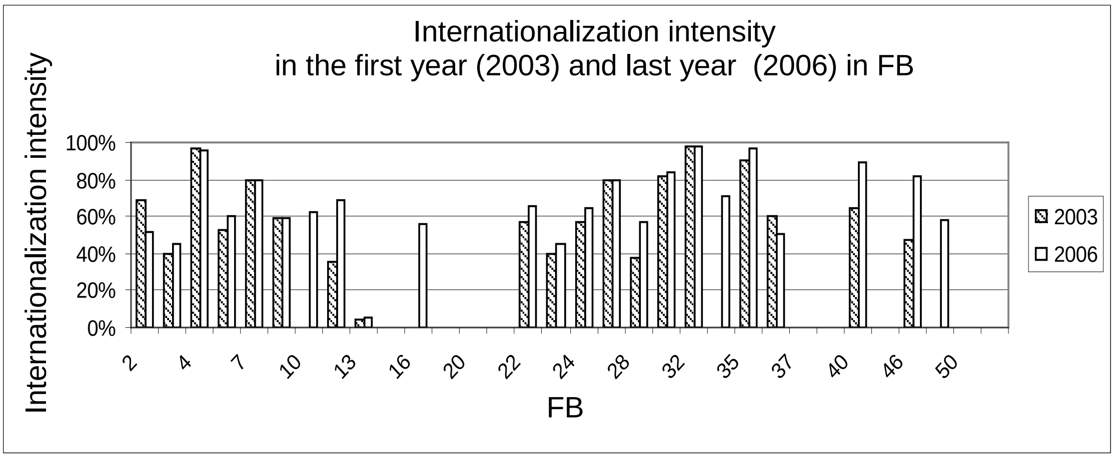

Figure 2. Internationalization intensity by year of family businesses.

The mean of internationalization intensity in the family business group in the first year is 41%, whereas the mean of the non-family business group is 37%. This difference is pronounced in the last year in which the intensity of family businesses is 66% and the intensity of non-family businesses is 41%. This is depicted in Figures 2 and 3. The major increase in family business internationalization intensity can be explained by the different reasons for internationalizing in the two groups, as an effect of their ownership structure. Family businesses with EISA are driven by the will of getting global advantages by improving foreign revenues more than non family businesses. The latter are more interested in developing the competitive advantages in their domestic market.

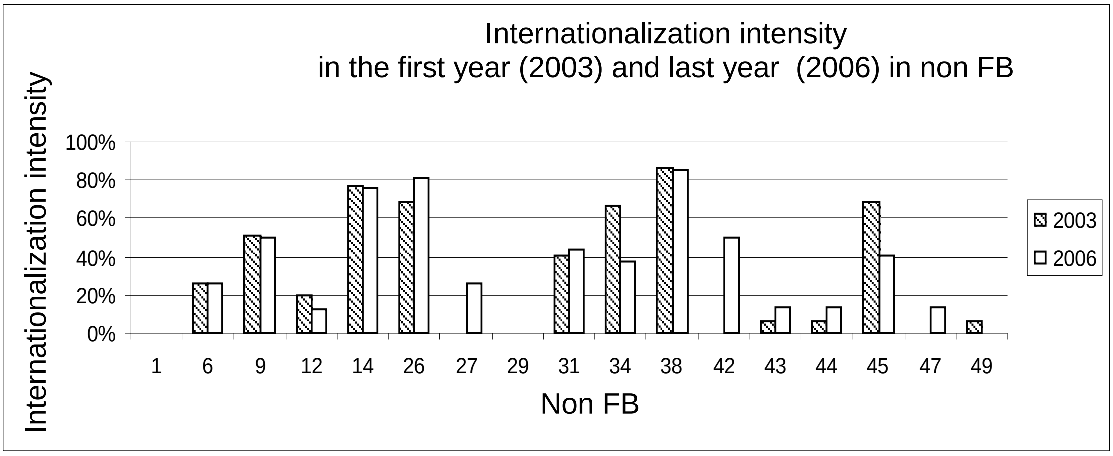

Figure 3. Internationalization intensity by year of non-family businesses.

Testing this difference with Kruskal Wallis[3] (Table 3) in SPSS software it was found to be significant. Therefore, hypothesis 1 is rejected, whereby the internationalization intensity of family businesses is higher than that of non-family businesses.

The Kruskal Wallis test (Table 3) shows that a significant difference exists in the two groups on operating revenue, earnings and assets. However, the preference of family businesses to keep the control in strategic alliances (EISA ownership) is not statistically different from non-family businesses. Thus, Hypothesis 2 is rejected, showing that family businesses do not have a different preference when choosing the ownership structure of equity international strategic alliances.

[3] This is a non-parametric test chosen to test the statistical differences between two groups, in literature it is used to compare family and non-family businesses.

Table 3 Family ownership effect.

	Ownership structure of firms	Mean Rank	Chi square	Df	Sig.
Revenue	Non-family firms	102.11			
	Family firms	78.35			
	Statistic		8.826	1	.003**
Internationalization intensity	Non-family firms	74.77			
	Family firms	91.20			
	Statistic		4.311	1	.038*
Earning	Non-family firms	96.86			
	Family firms	79.62			
	Statistic		4.692	1	.030*
Asset	Non-family firms	79.71			
	Family firms	55.67			
	Statistic		12.493	1	.000**
Growth of organisation	Non-family firms	66.26			
	Family firms	58.59			
	Statistic		1.248	1	.264
Country risk rank	Non-family firms	92.88			
	Family firms	94.53			
	Statistic		.038	1	.846
Eisa ownership	Non-family firms	94.22			
	Family firms	97.67			
	Statistic		.333	1	.564

* Significant at $p<0.05$; ** Significant at $p<0.01$

The firms examined prefer risky countries (see Figure 4). This is explained by the choice of market entry, which depends on the level of risks to be faced in the host countries. The location chosen and its risks by ownership was also examined showing a risk rank mean of 78.6. If the value[4] of rank is low the country is riskier and if it is high the country is less risky.

Selecting two groups by ownership in the list, in the group of non-family businesses (Figure 6) the mean of the risk is 79.7. It is higher than the mean of the list (78.6), so there is not a preference in risky countries. Family businesses (Figure 5) have formed EISA in countries riskier than in non-family businesses, the mean of rank being 78.
Even if the effect of ownership creates a preference in choosing the country it is not as pronounced and significant as the Kruskall Wallis statistic test shows in table 2. Thus, Hypothesis 3 is accepted, family businesses form equity international strategic alliances in risky countries as do non-family businesses.

[4]Rankings come from the International Country Risk Guide, Copyright, 1984-Present, The PRS Group, Inc Mean of forecast of the best and worst case of political risk rating in the last five years: 2002-2007

Comparing the revenue with the internationalization intensity the research shows another important result and institutional relevance of the study. The revenue is higher in the non-family business group that has lower internationalization intensity, it means that the non-family business group forms equity international strategic alliances to get competitive advantages for domestic market. The family business group looks at competitive advantages in foreign markets from equity international strategic alliances.

Source: Elaboration data of Country Risk Guide Copyright, 1984-Present, the PRS Group

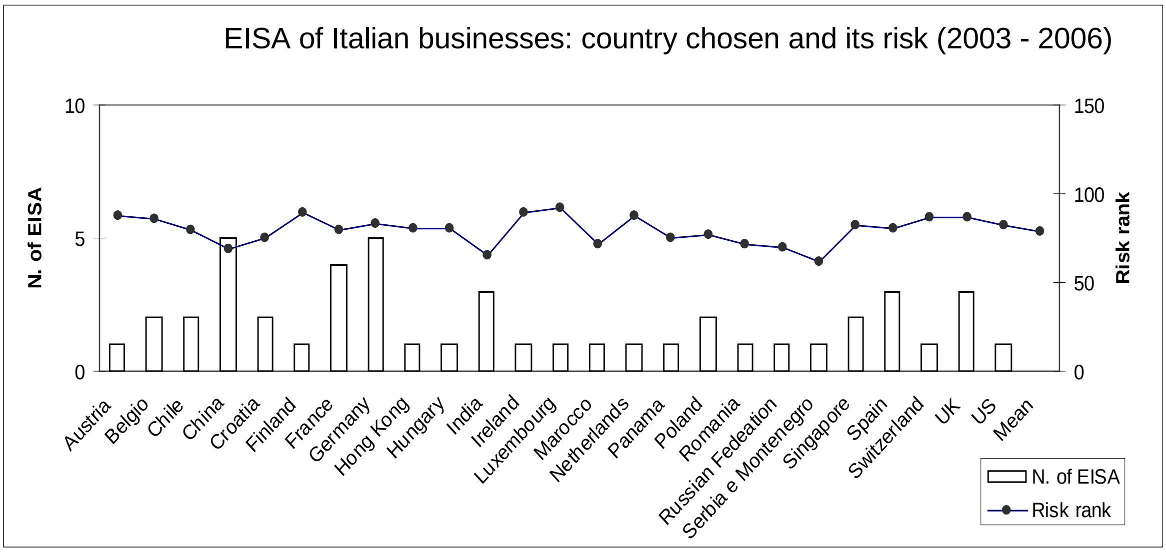

Figure 4. EISA of Italian businesses.

Source: Elaboration data of Country Risk Guide Copyright, 1984-Present, the PRS Group

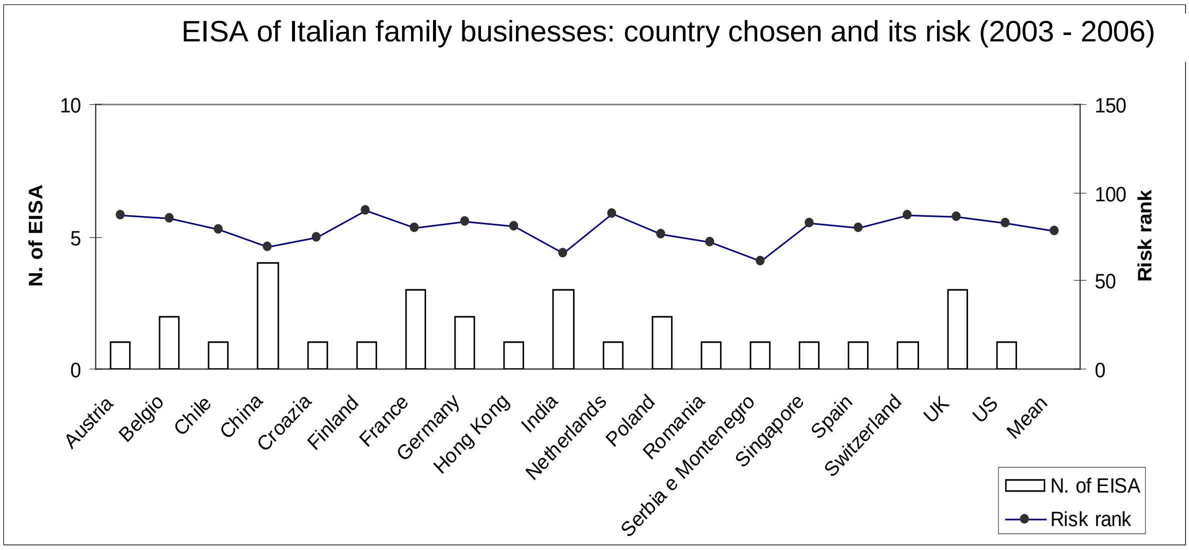

Figure 5. EISA of Italian family business.

Source: Elaboration data of Country Risk Guide Copyright, 1984-Present, the PRS Group

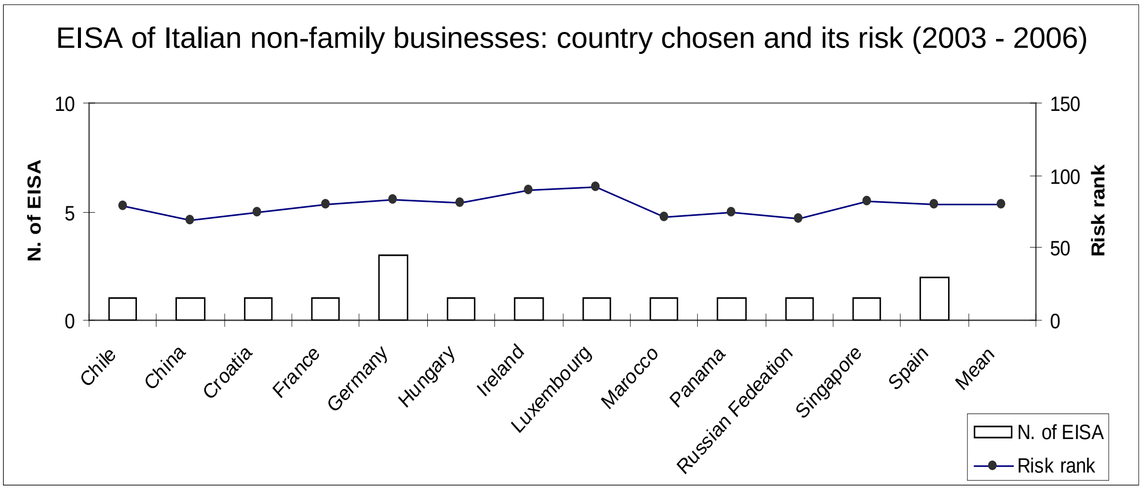

Figure 6. EISA of Italian non-family business.

Figure 7 shows that the revenue of all enterprises decreased during the years from 2004 to 2006, confirming the existing results in literature. Family business revenue decreased less than in non-family businesses, showing that family businesses have better reaction to this decrease of sales. This is consistent with Zahra (2003). The difference in growth is not significant as indicated by the Kruskal Wallist test. Thus hypothesis 4 is accepted, family businesses lose revenue as much as non family businesses after forming EISA.

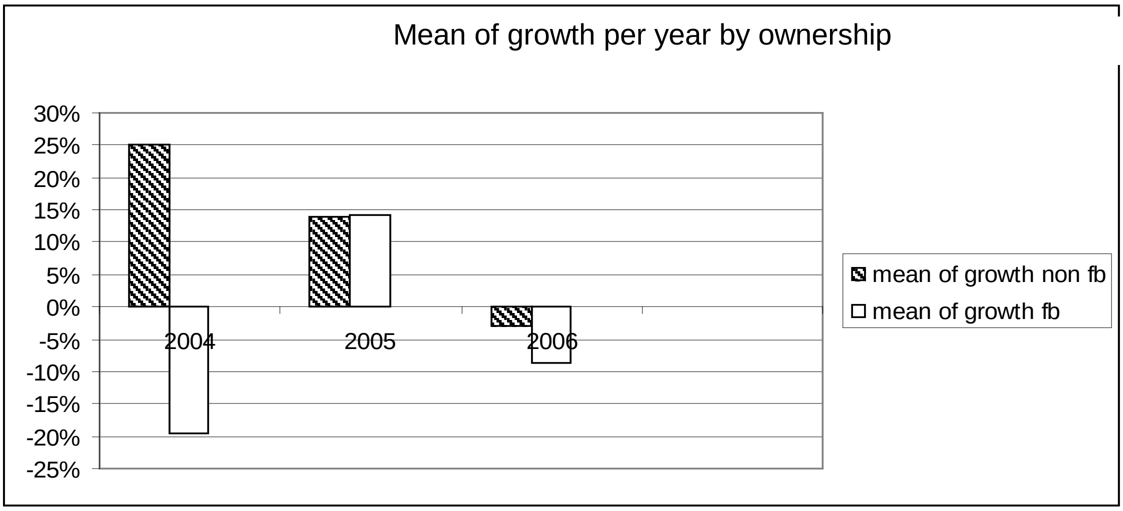

Figure 7. Mean of growth per year by ownership.

The commitment of family influences the operating revenue, the earnings and the assets as in the previous analysis. Notably, the country is affected by commitment of family (Table 4). Thus, Hypothesis 5 is accepted, where family ownership influences the preference of country forming an EISA

The internationalization intensity and the growth of organisation are not different relative to the commitment of family in the organisation. Another relevant result is that family ownership influences the preference of equity in EISA, so the commitment of

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family businesses has a positive correlation to the choice of EISA form (table 4), thus offering opportunities for new research.

Table 4 Family ownership effect.

	Family	Mean Rank	Chi square	Df	Sig.
Revenue	Direct	75.68			
	Direct and indirect	47.37			
	Indirect	31.42			
	Statistic		44.103	2	.000**
Internationalization intensity	Direct	59.00			
	Direct and indirect	42.39			
	Indirect	54.33			
	Statistic		3.762	2	.152
Earning	Direct	68.77			
	Direct and indirect	50.32			
	Indirect	38.50			
	Statistic		20.640	2	.000**
Asset	Direct	48.00			
	Direct and indirect	33.77			
	Indirect	21.44			
	Statistic		18.876	2	.000**
Growth of organisation	Direct	45.67			
	Direct and indirect	28.85			
	Indirect	38.17			
	Statistic		5.561	2	.062
Country risk rank	Direct	71.21			
	Direct and indirect	66.10			
	Indirect	50.83			
	Statistic		8.629	2	.013*

* Significant at p<0.05; ** Significant at p<0.01

Table 5 Correlation.

		Family ownership	EISA ownership
Family ownership	Pearson Correlation	1	
	Sig. (2-tailed)		
EISA ownership	Pearson Correlation	.376(**)	1
	Sig. (2-tailed)	.000	

** Correlation is significant at the 0.01 level (2-tailed).

CONCLUSION

The most important result is that family businesses have a higher incidence of foreign sales compared to non-family ones when they have formed an equity international strategic alliance (EISA). This finding discloses the different reasons for internationalization in the two groups observed. Family businesses form EISAs to sell more in foreign markets whereas non-family businesses which internationalize to gain competitive advantages in their domestic market. This phenomenon is explained by the effect of ownership structure. The relevance of the result is that institutional policies should take this into account when developing internationalization plans for economic aids for firms. There is no difference of commitment in EISAs between family and non-family businesses. However, when the influence of different levels of family ownership is analyzed, the study reveals that the choice of EISAs structure has a relationship with the quantity of shares owned by the family: if it is high, the commitment in internationalization increases. The research points out that the difference in choosing countries is not significant, however family businesses preferred more risky countries to non-family businesses. The growth in family businesses decreased less than in non-family ones, even if the difference is not statistically significant. The better reaction capacity of a family business to the investment opens a new research opportunity. This could be explored considering the speed of management decision-making and finding a corporate governance effect on managing the deal.

The researchers should develop other studies in Family business themes, in strategic analysis, in management issues and in internationalization as a result of two of the principle findings of this paper: the identification of the different kinds of competitive advantages that the two groups of businesses achieve when they form an equity international alliance, and the influence of ownership when they choose the partner or the target country.

The following research should be on the evolution of behaviour of firms in data set, collecting more information through a questionnaire, on the comparison of more geographic areas or applying the study to a larger geographic area.
This paper points out the innovative way of studying firms involved in the internationalization process because firms with an equity international strategy alliance are observed to verify the eclectic theory in which ownership is one of the determinants of the firm’s behaviour.

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LEGAL-ECONOMIC OWNERSHIP AND GENERATIONAL TRANSFER IN FAMILY BUSINESS: FACETS OF OWNER'S RESPONSIBILITY

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Abstract

In the following paper a conceptual framework of the owner's responsibility is created in order to study the transgenerational legal-economic ownership in the family business. Responsible ownership involves a sense of accountability and entrepreneurship to some extent. However, legal and social responsibilities naturally supplement each other in the family firm. Owners by means of personal relationships and financial guarantees are responsible for carrying out daily business operations and maintaining a balance with the stakeholders. The certain constituents of the estate planning are evaluated through the lens of responsibility. As a final step, the following study provides a synthesis matrix of the zones and fundamentals of the owner's responsibility in the family firm during the generational succession.

Key words: estate planning; family business; generational transfer; legal-economic ownership; owner's responsibility.

INTRODUCTION

Legal and economic ownership makes a sizeable imprint on the whole history of family businesses. Modern circumstances force owners of the family firms to focus on issues stretching beyond the areas of finance or bookkeeping: legal responsibilities are supplemented by a 'softer' side of the firm's economy - psychological accountability and personal attributes. In order to provide an overall stability for decades to come, owners adopt the formal economic principles in accordance with the necessity to keep social values in the business. This article provides a profound outlook on the search for a compromise within a family firm by answering the following research question: "What are the fundamentals and zones of an owner's responsibility in the transgenerational family business from a legal-economic perspective?" As the first stage of a longitudinal study on perspectives of owning a family firm, the primary focus is on working out a conceptual framework that will be used as a basis for the future empirical study. Though theoretical by nature, this paper though provides a synthesis matrix of the owner's responsibility during the family business generational transfer.

LOGIC OF LEGAL-ECONOMIC OWNERSHIP IN FAMILY BUSINESS

Traditions of interpreting ownership in family firms, already described yet decades ago (e.g. Hansmann, 1988; Bethel & Liebeskind, 1993), lead to a distinction between a strict legal perspective and a balanced combination of embedded values, cultural awareness, accountability and willingness to contribute in and for society. A legal entitlement to the unit of possession is considered to affect the principles which individuals act upon (Hannah, 2004). That is why an economic meaning adds to a normative definition in a certain way. There are also difficulties in describing "family business responsibility". An additional stream of interest occurs with an explanation of the legal drivers for those owners who are likely to be preoccupied in other ventures than owning the parent's family firm. In principle, a legal ownership encompasses an economic ownership: the former implies a legal title coupled with an exclusive right to possession, whereas the latter deals more with the outright risks and rewards from the legal entitlement (IMF Committee on Balance of Payment Statistics, 2004). Moreover, a transformation in the legal ownership leads to inevitable changes in the economic ownership. In case of family firms the legal ownership remains safe even in those situations, when changes of the economic structure take place (Tan & Fock, 2001). However for the benefits of this study, a title to possess and seemingly observable economic rights and rewards of control are intertwined and further on used as two components of a single whole.

Perhaps the central idea of owning a family firm is a possibility to continue business activities in future generations. However, a personal attachment to an enterprise does not provide owners with all ready answers. There is also a place for legal-economic procedures in a transgenerational family firm (Chrisman et al., 2004; Hansmann, 1996). The way, in which the ownership gets redistributed, broaches upon a subject of who is responsible for a certain part of the business. From another angle, successors are in charge of giving a decent sustenance for their aging parents and close relatives. Usually problems emerge due to the lack of skills of the young leaders. Knowledge, merits and future orientation are factors that the family is reluctant to assess when it rearranges the ownership stock. In fact, a transfer of the family business to the next generation involves two key issues: founder's retirement from the immediate governance and from legal ownership rights (release of shares). In the present paper critical steps and required tools for an effective legal-economic ownership transfer in a family business are further described, starting with the estate planning process.

CONCEPT OF THE OWNER'S RESPONSIBILITY IN FAMILY BUSINESS

Behavioral, emotional and psychological relations were found in connection with the legal ownership (Pierce, Kostova & Dirks, 2001, 2003). Understanding a psychological perspective of the family business ownership (e.g. values, ideals, internal dialogue etc.) helps a person unequivocally understand 'what is his/her?' not by law but rather emotionally. To clarify the previous statement, personal responsibilities are perceived on the personal (individual) level, whereas legal rights and obligations are acknowledged by the whole society (collective level) (Brown, 1998; Koiranen, 2007a). Legal and social responsibilities thus naturally supplement each other in a family firm.

Family and non-family businesses are regularly compared on various matters. In terms of the responsibility, it has been found that family firms are more responsible or more committed because their owners put more weight on the firm's image and its reputation (Dyer & Whetton, 2006). By acting in a socially-responsible manner businesses extract positive effects measured by an increase in profitability with a slight time lag (Waddock & Graves, 1997). The firm's annual profits, however, feature only one of the possibilities created by the fulfillment of obligations: money serve as the means for the attainment of social values (Bowen, 1953; Donaldson, 1982; Rawls, 1971; Wartick & Cochran, 1985). In this respect, according to Maclagan, irresponsibility starts when voices of stakeholders cannot any longer be heard by the owner (Maclagan, 1999, 2003).

The inclusion of the time variable goes even further to describe the notion of the owner's responsibility: unreasonable behavior in the past causes inevitable consequences for the future. Therefore the owner's responsibility is used as a 'prospective' phenomenon. Achieving reciprocal agreements stemming from the later ownership contracts explains another facet of the responsible behavior: by reaching beyond the legal terms, owners provide a ground for mutual trust and move these relations to a more transparent level. Coupled with the time variable, an open dialogue with self-assessment creates a moral atmosphere: easier 'digestion' of the formal agency principles by the competitive environment (Finch & Mason, 1993). What really makes a dialogue such an effective form of facilitating a responsibility among owners is its principle of communicating the truth and possibility to amend conditions when it is necessary.

The notion of a 'responsible owner' involves at least the owner's capabilities and emphasizes the association with the owned object (Carlsson, 2001; Koiranen, 2007b). To some extent responsible ownership involves a simultaneous sense of accountability and entrepreneurship. Additionally a criterion of profitableness characterizes of what turns out to be critical for the ownership continuity in a family firm. As a result of the responsible ownership added value emerges for both owner and other stakeholders. Added value can mean a legal-economic surplus as well as emotional benefits, for example enjoyment to be felt towards the family heirloom, regardless of whether it generates financial value or not (Koiranen, 2007b, 23). In general, to be responsible, or accountable, means to be obliged to answer, if one asks why we did (i.e. active responsibility) or did not do something, although we should have done it (i.e. passive responsibility). Responsibility may be personal, collective or, for instance, firm-level (corporate). The latter means taking into account interests and needs of other stakeholders and maintaining a balance by means of financial results. Thus responsible ownership is simultaneously an obligation and requirement to be reliable from the economic-legal viewpoint. From a moral ethics' perspective, owner's responsibility relies on values. Owners by means of relationships, personal and financial guarantees are responsible to ethically approve business operations and maintain a balance with the stakeholders in renewing the business. Although an owner has legal rights to delegate a part of his/her functions to others involved, there is his/her outright responsibility for improper decisions.

On a broader scope, owner's responsibility in a family firm is logically divided into several groups (Koiranen, 2007b, 30). An economically responsible owner divides profits in a way that ensures continuity of the business and competitiveness in the market: if activities are in red, owners take the full responsibility for losses and consequences that caused such a state. An owner's legal [juridical] responsibility varies between the legal forms of an enterprise. Owners become additionally responsible when they serve as Board chairs or executive directors. Being socially responsible, owners as well as employees stick to existing ethical criteria, since the support of the personnel and its professional development facilitates an after-transfer recovery. Finally there exists an overall responsibility of an owner, which unites economic, legal, social and mental dimensions. By taking and maintaining such responsibility actively, owners acquire the legitimate right to exploit power, augment wealth and feel joy for practicing successful ownership.

In the previous research, emotions and ownership were theoretically and empirically studied as two constituents of the socio-emotional wealth. Astrachan, Eddleston, Jaskiewicz, Kellermanns and Zellweger carried out a number of joint as well as independent studies on the impact of financial and especially non-financial (emotional) aspects of owning a family firm. For instance, Astrachan and Jaskiewicz (2008, 139) develop a concept of 'emotional value' by showing that family ties, existing between the groups of owners, have both positive and negative effects on the family's well-being. In accordance with their proposal, financial results are to be adjusted by the difference of emotional returns and emotional costs (Astrachan & Jaskiewicz, 2008, 142-143). An achievement of emotional satisfaction does not although predefine financial benefits: for instance, employment of incompetent family members or legal obligations of avoiding interpersonal conflicts might be to the detriment of the business (Eddleston, Kellermanns, & Sarathy, 2008; Zellweger, 2006). Empirical evidence of the impact of cognitive and relationship conflict on the legal ownership continuity are found from the study of Eddleston, Otondo, and Kellermanns (2008, 456, 462-464). Finally, Zellweger and Astrachan (2008, 349-350) elaborate the concept of socio-emotional wealth by modeling a situation when owners plan to sell their businesses and thus express the non-financial value of ownership in monetary terms. Across three consecutive generations of the family business, owners' responsibilities vary to a certain extent (Lehti, 2007). At the firm's founding stage, owners are indebted both personally and enterprise-wide. In addition to bringing up children in accord with the family philosophy, there are issues of profitability and operations. Ownership attributes in the first generation are mainly revealed from an entrepreneurial angle (Kansikas & Kuhmonen, 2007; Robinson et al., 1994), with a greater role of the founder's individual provision in accumulating sources and developing values for the company. If grown-up children bear honorably their family name, family business takes on certain attributes of a long-term asset, an ultimate value of which is only growing in the years to come (Carlsson, 2001). Come time for the second generation, certain informalities get lost; however an official context of the collaborative work gives more opportunities than earlier and secure future compromises with the unsatisfied family members (Rivers, 2005; Steier, 2001). Such a compromise during the ownership succession appears in the elders' wisdom to respect the wishes of their children and exploit funds for their benefits.

In the course of time psychological attributes of legal owners undergo a further growth. However, second-generation family members often prefer to be treated as executives, rather than owners (perhaps, due to a greater responsibility of the latter). Having once agreed to continue the 'business' of their fathers, the second-generation owners gain a greater responsibility for keeping that business going in the long run. Owners are not deprived of illogical behavior and a dependence upon their parents' and grandparents' will. In the later generations of family firms ideas of the common good and family harmony come to the front (Davis, 2005; Kansikas, 2006). Personal gains are less regarded as prior motivators to continue (Koiranen, 2002; Koiranen & Chirico, 2006; Lehti, 2007). Customers, family members, ownership principles, social relations, long-term objectives - these are all zones of owners' responsibilities. Beyond the generational border, psychological elements are representing a 'glue structure' binding together a 'family' and a 'business.' These arguments illustrate responsibilities taken on by owners of later generations and contribute to the preunderstanding of why only about one tenth of all businesses survive past three generations (Chua et al., 2003).

After the definition of the distinctions of owner's responsibility in a family firm, its applications are further considered with respect to the ownership transfer and the post-transfer period. In other words, key constituents of estate planning, such as trusts, ownership agreements, evaluation and distribution processes are perceived through a responsibility lens.

ESTATE PLANNING AND OWNER'S RESPONSIBILITY

Facilitating a Responsible Attitude towards Estate Planning

In general a family business transfer to the next generation includes two steps: ownership and management succession (Aronoff et al., 1995; Astrachan et al., 2002; Ward & Dolan, 1998). To facilitate the process, a suitable estate plan is drawn up to figure out how owner's holdings (i.e. immobile property, investments, businesses etc.) will be allocated after his/her death. One of the challenges in estate planning is to rationally look at one's own mortality. For that purpose the typical blunders of estate planning are further analyzed. Estate planning, however, features only the first block in the pyramid of the family business' initiatives when a generational transfer looms. To express that in legal terms, negligence (as a display of an owner's passive responsibility) is considered as a crime; and the guilty one is the inactive owner. Preparations for the ownership succession are not limited with filling the successor's position: retiring owners are also tested for giving up the authority they do not obviously need any longer.

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A clear line is drawn between what is regarded emotional and logical. Children differ in qualities related to their participation in business. In a way parents, who want to be really fair with their children, treat them according to their merits (Davis et al., 1997). Pseudo-equality will more probably lead to a layer of new conflicts, solutions to which are problematic to find. The harmony balance is fragile in nature, and even smallish attempts of retiring owners to oblige successors with an equal distribution of rights undermine a sense of satisfaction and trust. Egoistic considerations emerge in minds of family members as well as among newcomers (multiple in-laws and family members deciding to reap the benefits from their outright participation). As a result, fairness leads to an imbalance of votes and veto right is seemingly to be used by the minority stockholder groups. Owners do not although realize that by their leaving, regardless of whether it's caused by illness, retirement or untimely death, a change is inevitable in the company's legal status. Therefore right before the departure, there is a possibility for the founders to start an evaluation process of what core values mean for the family and where sources for the growth are to be found. A failure to update an estate plan results in undermining working principles and methods of teaching. Those children, who see up coming changes, are ready to respond to arising demands in the future. As Poza et al (1998) advise, estate planning is like a painting, whose parts are subject to constant renovations; hence pencil and eraser are powerful instruments for the process. All in all, estate planning provides more questions than set solutions. An ability to learn from others' mistakes matters at this stage.

Instruments of Estate Planning through the Lens of Responsibility

Estate planning involves using certain instruments, among which there are trusts, ownership agreements, notes for the retiring owners and non-family members as well as buy-out schemes for successors (Davis et al., 1997; Hall, 2004). An owner's responsibility while designing these instruments is analyzed in more details.

In order to dispel owners' fears on the matter of who, when and how will take care of the family business after the transfer, ownership stock agreements as well as voting trusts are established. Reasons for organizing a trust in a family firm are partially correlated with the succession looming over the ageing owners and their reluctance of thrusting a bundle of responsibilities in the immature hands of their own children or other relatives. Traditions of establishing trusts are more common in North America, although some European countries find trusts more attractive for securing the family business' long-term perspectives in comparison with the traditional transfer schemes (The Executive Newsletter of The Official Board, 2009).

Despite being fully in charge of the trusted property, trustees are still liable for serving in accordance with the grantor's interests: typically a fiduciary responsibility touches upon every trustee enacted in the family firm. Owners also benefit from running a trust in a way of economizing on the estate taxes that are postponed for the time being. A relative unpopularity of trusts in Europe might be partly explained by the absence or affordable scale of the estate tax. Besides securing a family firm against the legal duties, family members also get a diversified ownership structure with control in the hands of diligent individuals.

In general, trust is initiated by a grantor (i.e. owner of a family firm) who temporarily delivers an object of possession (e.g. business of the family) to another party. On be-half of the family firm, trustees are in charge of owning the family property, investing family capital in new projects, paying dividends and compensations to the interested parties, and dealing with the retired owners and their spouses. The duration of a trust depends upon a case's specificity varying from a few months to several decades. However, the longer the owners rely on the decisions made by the trustees the less energized the successors are to take the business over.

Trustees are regarded as shareholders in the company, since owners endow them with certain voting rights. Members of the trust are in charge of pulling family business ownership and control apart. Not infrequently, though, trustees collaborate side by side with the external CEOs (and not directly with the family members) in order to gain a greater impartiality of the decisions made within the family firm. 'To look before you leap' is a proverb that describes a style upon which a panel of trustees operates in and for a family business. Accompanied by skilled professionals, family firms choose out of specific trust schemes, some of which are further presented (The Family Business Succession Handbook, 1997, 2001). As a contribution for the following study, zones of owner's responsibility are described in each case. Moreover, despite the U.S. backgrounds of the mentioned trusts, zones of responsibility are considered in regard to the trust's applicability in the EU-countries, where estate taxes are either low or abolished completely.

- In a grantor retained income trust owners are primarily responsible for selecting those investment targets, which will be beneficial to the forthcoming generation of family members. Another owner's duty is to secure the equity capital from the unplanned withdrawals.
- Since the terms of the revocable living trust are under amendment by owners during the trust's duration, owners' primary responsibility is to maintain the selected course of actions, long-term by nature, and weather temporary drawbacks in accumulating financial assets (McCollom, 1992). The complexity of relations between owners and other family members is under consideration as well.
- An establishment of the irrevocable living trust suggests the owner will make no alterations of the trust's terms in the future. Therefore the responsibility for possible mistakes in outlining the operational tasks is eventually growing (Sorenson, 2000). With respect for the owner's progeny, such trust scheme is regarded as risky for a first-generation transfer, even though property at the trustee's premise is not a subject to estate or capital gain taxes.
- By originating a crummy trust, owners allow a successor to extract the definite capital out of the pool with an agreement of trustees on a yearly basis (Perricone et al., 2001). Simultaneously the main owner takes the ultimate responsibility for any consequences caused by an improper use of money by the young-generation family members.
- In case of setting either qualified terminable interest property trust or bypass trust emotional (relational) issues come to the front. A retiring owner is accountable for a decision to leave out his/her children in favor of his/her living spouse for a specific period of time. Despite the temporary reallocation of funds from the next generation to the current one, communication is a way to gain a mutual understanding, because the successor has no legal rights to exploit ownership neither financially nor operationally during the whole duration of these trusts.
- A division of equity and growing returns are yet another forms of securing family firms during and after the ownership succession. Under the marital trust, an owner is responsible for preserving the equity capital intact for the family progeny as

well as for stimulating trustees to make profitable decisions for the benefit of the owner's living spouse.

• An owner's social responsibility is presented in the charitable remainder trust's terms: while satisfying family needs by means of the pro-active policy, the remaining property is given to a certain charitable organization. After the owner's and his spouse's death beneficiaries gradually take over rights for the capital proceeds (Dumas, 1990). Hence the owners are responsible for giving up a part of the business in favor of other family members. There is also a financial gain stemming from a diminishing business value (as a result of the continuous donations).

Benefits from rendering services to the trustees are in a constant balance of the internal capabilities of maturing children (Levy, 2008). However, excessive protective actions of trustees undermine the owners' chances to be effective in the future. Another stream of parental concern stems from the irresponsible behavior of certain stakeholders: these individuals influence on the successors' will to act independently for the benefit of the external parties or rivals involved. A gradual necessity of the owners to assign equity to the trustees outweighs hypothetical inflows from economizing on taxes. Since owners are in charge of more than one generation of the family, trusts represent a vital source of preserving the business intact for owners' children and grandchildren (Lansberg, 1999; Levy, 2008).

Family businesses in the second and later generations extensively acquire the attributes of formality. By means of ownership agreements an arrangement of roles between those with the legal title is made. For better understanding of the legal-economic role of ownership agreements and consequent zones of owner's responsibility, several schemes are considered in more details.

At the stage of designing a stock redemption agreement, owners are responsible for not only calculating the deal price (usually based on the fair market value or mark-to-market value), but also for selecting assets, which will be further used as collateral. As an outcome, reserves are divided into those contributing to the ownership growth and those set as immobile during the transfer. Owners are also responsible for the justice of the stock transactions, called the buy-sell agreements (Khalil et al., 2008; Kuratko & Foss, 1994). A positive reaction of holders primarily depends on an owner's ability to communicate what the fair price for the deal is and how this certain transaction contributes to the family well-being.

Non-business assets are created for the non-participating family members. Gradually, as the family company evolves in the market, owners invest the proceeds from the main activities in real estate, non-business equipment etc. Dividends and non-voting shares as such compensate inactive members but guarantee no legal rights for the family heritage. In a way, owners withdraw their direct responsibility for satisfying the needs of the non-active relatives. In addition to the non-business assets, restricting provisions are made for the older generation. Any attempts of the retiring owners to shift to a competing firm or open up a new enterprise are usually prohibited with the covenant not to compete. In order to provide the retirees with a decent income, a deferred compensation plan is drawn up (Khalil et al., 2008). Moreover to ensure that payments to the retiree's spouse will be continued after his/her passing, a survivor benefit is an option. So ownership agreements render practical help to the family members and neutralize personal conflicts through the legal notes. However, owners

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bear the ultimate responsibility for designing such agreements and possible negative consequences.

A protection of income for a retiring owner is a matter of honor for the successor and a practical issue for the retiring owner him-/herself. Beside the emotional claims, legal documents are processed, where the clear guarantees, payout schedules and financial limits for successors and their immediate family members are allowed for. Such precautions do not call for a vote of confidence, but, quite the contrary, initiate a thought-out planning. Owners of the long-lasting businesses are considered to be the masters of their destiny and forge their income by saving subtle annual installments aside the main business. Periods from seven to ten years before the transfer are regarded as sufficient for amassing the required funds (Rivers, 2005). Owners relinquish part of their responsibility by giving successors personal promissory notes to be subsequently repaid. Right after the legal ownership transfer, inheritors are responsible for maintaining the free cash funds (in order to avoid loans at the time of capital investment). However if family members fail to meet the legal expectations of the retiring owners, an association of creditors or an attendant bank might impose restrictions on the debt-to-equity ratio or historical showings (Koeplin et al., 2000). There is also an additional security against the unexpected actions of the buyers: until the buyers repay due debts for the business they purchase, possession rights are saved by the family. On the economic level, a supermajority provision (e.g. when owners hold only one fifth of the voting shares, other family members need more than four fifths of the same shares to put the idea into action) helps the retiring owners spread the responsibility and keep an eye on the successor's actions.

A generous allotting children with voting rights, however, makes them feel indebted or trapped into the family business. In this respect a buyout is advantageous for owners, since the free cash is amassed on their accounts and collaborative traits among the children are continuously developed. The same effect is hardly achieved via outright gifts of voting rights. A psychological justice is created via the leveraged buyout (cash-out): by selling the firm for the fair market value to an interested child and giving non-active family members the immobile property or other non-business assets, parents sustain fairness and again responsibility. Buyout agreements are especially effective for successors who strive to obtain exclusive ownership control and diminishing dividend payments to stockholders. Possible claims during the evaluation process are resolved by either enlisting to an impartial arbitrator (i.e. a person who defines a fair price by the compulsory decision) or working out a possible agreement independently by choosing the most suitable price. These alternatives give owners a chance to escape from long and generally expensive legal procedures.

After the first-generation transfer owners also become responsible for the objectivity of the decisions made. It is hardly possible to approach decisions impartially when the decision makers are family members only. For this reason, non-family directors are invited aboard (Strobel, 2007; Young & Quintero, 1995). A psychological portrait of an external director suggests that s/he prefers to be equally rewarded for the same work done as by the family members. However for those CEOs with the corporate market backgrounds ownership does not represent a sufficient source for remuneration (Cohn & Pearl, 2000). A responsible owner develops special rewarding packages without a dilution of the family stake. Following the logic of economic-legal responsibility, by means of an incentive stock option owners give an opportunity to the external members to beneficially purchase non-voting stocks. In some cases such a right is donated even after executives' leave from the family firm (i.e. companion stock redemption agreement). Additionally a special type of securities, phantom shares, is designed for satisfying the outsiders' needs, while giving the family members a sense of safety. Phantom stocks do not give any direct voting rights, however one gets a stable income from its rates' variations. An altruistic nature of relations between owners and external board members leave the former feeling morally indebted to provide a decent post-work living for the latter. Various pension programmes as well as private retirement plans are consequently designed. That is to say, a transitory stage of the family firms involves both multiple claims of the next-generation family members and psychological challenges of the chosen successor. To some extent an availability of the formal ownership agreement releases arising tensions without the serious ramifications for the future.

DISTRIBUTION OF OWNERSHIP AND CONTROL: PSYCHOLOGICAL IN LEGAL

Legal-economic ownership of a family firm surprises with its multi-sidedness: formal ownership principles are permeated with personal and psychological attributes. In general a sense of owning something in a socially-responsible way leads to an improvement of personal habits. Society itself leaves an imprint on the object of possession: stakeholders and interest groups create closer ties with the owners and develop a social interaction with both retirees and succeeding generations (Nordquist, 2005). These relations exemplify a psychological and socio-symbolic side of the legal-economic ownership. In the family business context, ownership has always been a cornerstone, with respect to both generating greater profits from a legal-economic perspective and satisfying loyal employees and aging family members with the option ownership rights from a psychological viewpoint (Almeida & Wolfenzon, 2006; Daily & Dollinger, 1992). At a certain stage of the business development a necessity emerges to understand what sort of ties hold the legal ownership in the hands of a certain family. Hall proposed that 'emotional capital' positively affects all other elements in the family business (2003). In addition to that Nordqvist (2005) has developed a mature concept of the socio-symbolic ownership, explaining a family business distinction through a special way of social interaction and creation of the non-financial attributes (Pierce et al., 2002).

In growing family firms, owners acknowledge the influence made by the relatives with voting rights. On principle an owner's responsibility does not necessarily consist of the equal stock distribution among the family members. The reverse may be true: provided everyone in the family possesses an equal set of shares, resentment is about to occur. Without a formal entitlement, family is forced to decide, who the main owner (i.e. the holder of the number of controlling shares) is. Relationships based on ownership make successors respect also those with minimum set of shares; by means of that an unjustifiable criticism to the minor shareholders is overcome. One of the eternal problems of the human choice - between what is regarded fair and socially justifiable - was reflected by the Nobel winner Milton Friedman in saying that a social responsibility of an owner of a small company opposes to the well-being of himself and his family (1970). Achieving fairness in the family business goes beyond the equal distribution of shares. Using the term 'rough justice' (Ayres, 1990), practitioners usually hint at the possibility to satisfy less active members of the business family with immobile assets or cash reimbursements instead of obliging them to take part in a real and frequently adverse business life. By having received the same amount of shares those who have never acted as directors benefit as equally as those who have spent long hours at work and contributed to the firm's progressive development over the preceding years. From an equal distribution unequal opportunities arise (Cohn & Pearl, 2000).

Owner-parents deal with the business evaluation right before the transfer of ownership rights to their children: one of the critical owners' or trustees' responsibilities is to measure the firm assets as low as possible for the time being. At the finish line, the business will be less favorable for outside takeovers. However a lack of liquidity makes family firm low-marketable, with few chances to increase its profitability in the future. From another viewpoint, when going public owners gain the liquid assets and a compliance with all required standards. Markets for new groups of target customers widen as well. If owners feel confident in their maturing children, family partnership is an option to keep the level of family relations untouched and ownership safe. Under these conditions, business assets are ascribed to a succeeding generation, and parents keep the right to intervene in the investment and ownership redistribution processes. Inside this partnership, value of the ownership transfer is preserved with no forthcoming changes: for children paying estate or property taxes such an innovation improves accounts, since any augmentation in value is not a subject to estate or gain taxes. Along with the formal precautions, a communication process keeps owners responsible for the family firm's future.

A legal constituent of ownership, with all duties and responsibilities granted by law, is supplemented by an increased emotional attachment, psychological attributes of which positively correlate with the successful governance (Koiranen, 2007a). Together these two elements form values of the family business ownership, helping to explain the principles of those families running their companies for more than one generation. Thoughts of possessing something beyond the legal frames broadens the mindsets of the family business owners and facilitates a common awareness of the necessity to stay together and step further, marching arm in arm and being ready to struggle for the family interests (Koiranen, 2004).

CONCLUSIONS AND DISCUSSION

This theoretical analysis helped answer the research question stated in the beginning of the article: "What are the fundamentals and zones of responsibility in the transgenerational family business ownership from a legal/economic perspective?" Through the following key steps of the estate planning and devoting an owners' attention to the social and psychological aspects, legal owners will only benefit in the long term by taking on a sense of responsibility and awareness. The following study as a final step provides a "synthesis matrix" of the zones and fundamentals of an owner's responsibility in a family firm during the generational transfer (Table 1). Such a matrix is regarded as a viable instrument that could be exploited as a backbone for analysis of the ownership dimensions and particularly multifaceted nature of the owner's responsibility in a multigenerational family business. Since the owners' responsibilities evolve over time, its fundamentals transfer between the zones, or in other words, fundamentals are dynamic and need to be treated as a 'prospective' phenomenon. In accordance with the Table 1, in countries with no estate taxes, reasons for establishing trusts or

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drawing up ownership agreements are not solely financial. For example, marital or bypass trusts could have a primary objective of securing emotional well-being of the spouse. Stock redemption agreements can also be explained from an emotional perspective, since retiring owners are also stewards, willing to protect the original number of equity shares for their grandchildren. However, a transition between the zones does not exclusively go in one direction. Next-generation owners might become dependent on the free cash flow or return on equity ratios in the course of time, thus preferring to reconsider the family business philosophy from a more financial/economic viewpoint. For this reason, emotional capital will give its place to the economic capital. The fundamentals of the owner's responsibility belong to either legal-economic, emotional or both zones that can be found in the following Synthesis matrix.

Table 1. Synthesis Matrix. The fundamentals and zones of the owner's responsibility during the generational transfer.

Zones / **Fundamentals**	**Legal-Economic zone (Business zone)**	*Mix of Legal-Economic and Emotional zones*	*Emotional zone (Family zone)*
Trusts	irrevocable living trust revocable living trust grantor retained income trust qualified terminable interest trust crummy trust	charitable remainder trust marital trust bypass trust	
Ownership agreements	stock redemption agreement buy-sell agreement buy-out agreement		
Fairness & Justice		creation of non-business assets	
Psychological commitment		family ownership	family business philosophy
Stewardship attitude		personal promissory notes	
Acknowledgement of emotionality			emotional capital self-identity
Legal advisors		value of advice	

Zones / **Fundamentals**	**Legal-Economic zone (Business zone)**	*Mix of Legal-Economic and Emotional zones*	*Emotional zone (Family zone)*
Retiring owners		survivor benefit	
	supermajority provision		
	covenant not to compete		
		pension program	
		private retirement plan	
External directors	incentive stock option plan		
		companion stock redemption agreement	
	phantom stock		

Findings of the study are expected to be proved by means of the empirical research. Psychological drivers of owners' behavior, hence, have an impact on the legal-economic strategy of owning a family firm. In the present paper legal and economic ownership is combined without making a distinction in the effect of socio-symbolic and psychological aspects on them. For this reason, in the future studies it would be beneficial to find quantitative measures for comparing economic and legal ownership between each other. Coupled with the country-specific legislation on family businesses, analysis of family ownership in two-three different countries features a prospective venue for future research. In addition to that, an owner's responsibility and schemes of ownership distribution are possible to interpret from both legal-economic and non-economic viewpoints. For a better understanding of factors, which explain owners' motives during the process of designing the transgenerational strategy, emotional aspects need to be taken into account. By means of face-to-face meetings with the owners (before and after the transition) non-financial costs and returns will be collected. In its turn, quantitative analysis is preferable on the stage of comparing sources of responsibility in family versus non-family businesses. With the help of the time variable in a calculation process, we could see, in what generation responsibilities are 'prospective' or 'bygone' phenomena. Finally, emotional attachment of owners has to be critically assessed. Behavioral patterns of the non-active family members in the later generations and their role in changing the future of the family business is under-researched. In this respect, diversified and concentrated ownership structures feature a scientific interest, especially in the context of the owners' missed opportunities. However for a greater contribution to the academic society, additional sources of inquiry are included. Based on current doctoral research on family traditions and key value-sets in multi-generational families, social beliefs and religious convictions with its overall impact on the legal-economic ownership feature a new stream of research interest. Religion and traditions, preserved from one generation to another, make it easier to figure out whether the family or business side dominates, especially among the insufficiently studied newly-created family firms from the Eastern Europe. To specify, in the forthcoming paper there will be an attempt to combine findings from the present article with the historical analysis of the orthodox Russian family business dynasty, actively participating in business and social life of the Grand Duchy of Finland on the verge of 19th and 20th centuries. The aim of that study is to find out the roots of the legal and economic ownership among the Russian family firms.

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FAMILY BUSINESS REPUTATION: A LITERATURE REVIEW AND SOME RESEARCH QUESTIONS

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Abstract

Although there is a heightened interest in the concept of corporate reputation, only a limited number of studies have been done in the literature. Moreover, the methodological debate of these studies does not reach a sufficient level as well. However, the concept of reputation has affluent dimensions. Especially the organizational context, in which the reputation concept is discussed, is an important methodological issue. In this study corporate reputation has been discussed in terms of family businesses. First, some characteristics of family businesses have been emphasized. Next, some research questions that aimed to explore the meaning of reputation concept for family businesses have been suggested.

Key words: Corporate reputation, family businesses, perceptions, founder, family members, non-family members.

INTRODUCTION: REPUTATION AS A NEW RESEARCH DOMAIN

The corporate reputation (CR) is "a collective representation of a firm's past actions and describes the firm's ability to deliver valued outcomes to multiple stakeholders. It gauges a firm's relative standing both internally with employees and externally with stakeholders, in both the competitive and institutional environments" (Gardberg and Fombrun, 2002: 304). The CR especially contributes to develop social legitimacy of corporate in terms of those groups (Martin de Castro et al. 2004: 576) and organizational legitimacy as a social comparison among organizations on a variety of attributes, which could include these same regulative, normative or cognitive dimensions (Deephouse and Carter, 2005: 332). Similarly, Caruana (1997) has emphasized its power in developing a company's social status. In recent years, since financial outputs are thought to be directly affected by CR, its management as a capital has largely been discussed. Reputation the formation of which takes quite long time could be a major factor in gaining competitive advantage as a core-strategic resource (Carmeli and Freund, 2002). Due to its complex dynamics; reputation, the cumulative result of the previous and past economic behaviors of corporate, has become the initial focus of most disciplines. Hence, the contributions coming from different disciplines (communication, psychology, sociology, economics, organization studies, management) give signals of enriching debates on defining and measuring CR.

Many questions concerning how the reputation subject will be analyzed and how it will be managed still wait to be enlightened in parallelism with that continuously increasing interest in the management literature. One of the unclear fields of this subject is what the different corporations understand from the reputation and how they manage this. For example, the large corporations have dealt with the reputation management more strategically, for SMEs reputation management currently has not been a priority importance. Goldberg et al. (2003) emphasized that most small business managers would accept CR was important but there was a failure to translate this viewpoint into concrete reputation-building activities. The managers of these businesses did not follow policies aimed specifically at developing the intangible asset of company reputation and they neither made use of personnel time, nor did they expend financial resources in order to reach this objective (p. 183). However, the reputation management can be possible with a long-term, patient and coherent organization behaviour. For small businesses that need rapid economic issues to exist, the efforts of improving reputation should be abstract and also romantic. However, instead of making these kind of speculative determinations or excessive generalizations, to explicate the reputation with the right research questions and methods support the arguments more. One of the important problems of this subject is whether the reputation perception has been changed by the characteristics of businesses. For instance, the question of what the reputation means for family businesses as a special typology is a specific question and deserves a special interest.

Family businesses are the most common form of the business organizations in the world (Lee, 2006: 103) and are estimated to account for 65 % to 90 % of all business in various nations (Sharma et al. 2000: 233). Specially, it can be seen that family businesses compromise a great part of small and medium size companies in the world. Their life stories, structural characteristics, strategic orientations and cultural traits are interesting case studies for practitioners and scholars. However, the number of studies directly focusing on reputation is very limited for these businesses, despite the opinion that there is a close relationship between the continuity of family business and its CR.

This study argues that reputation has to be separately discussed for family businesses as a phenomenon and the issues should be handled with the right research questions. Therefore in the context of this study the original dynamic of the family businesses were taken into account and some research questions were developed. However the questions were not tested empirically. It is considered that researchers who will make research with respect to the family businesses will develop a set of hypotheses by the help of these questions and seek for empirical supports to hypotheses.

FAMILY BUSINESS: A SPECIAL TYPOLOGY FOR BUSINESS LITERATURE

In the family business literature, there is a richness of definitions (Chua et al. 1999). In these definitions, the significant ownership leads the criteria used to explain these kinds of businesses; that means the family owns all or a voting controlling share of the firm, power over strategic direction, and involvement of multiple generations (Shanker and Astrachan, 1996). Furthermore, family involvement which concerns the degree to which a family is involved in the ownership and management of a firm and the transference of ownership to the new generation criteria differentiate these businesses from non-family ones (Athanassiou et al. 2002: 140; Dyer, 2003: 406). Moreover, the managerial applications such as informal management structures, leadership by inheritance and a lack of non-family employees in positions of real authority are the typical characteristics of these businesses (Haugh and Mckee, 2003: 143). Also, same behavioral characteristics such as high level of trust and commitment may result in greater efficiency than non-family businesses; however, it is known that the conflicts between the family and the business affect the business performance negatively (Lee, 2004: 51).

In studies regarding family businesses, two dimensions gain importance: the family and the business. McCann et al. (2001) have defined these dimensions as family centered and business centered. These two dimensions are mutually embedded. Especially business dimension which contains strategies is deeply affected by family values, business style and vision of the company. This characteristic can transform into an advantage or disadvantage for the success and continuity of the company. It should especially be emphasized that when the aims of family and the market expectations aren't overlapped, this situation definitely can be a problem for the business. As Dyer emphasizes (2003: 408), the goals of a family focus generally on the nurture, and develop, and support family members but the perceptions of performance of non family business focus on profits, market share, efficiency and other economic criteria. Moreover, it gives rise to a sustainability problem for family businesses that cannot response rapidly to the market expectations. However, statistics show that only one-third of the family businesses can be carried over the second generation and a few companies can survive through the third generation.

Family businesses literature has developed late as a relative within the management literature. Some researchers have indicated that the interest of this field began in 1970s. However, researches increased more systematically in the second part of the

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1980s and 1990s. Casillas and Acedo (2007) made an important study on the subject of family businesses and analyzed the articles that were published between 1988 and 2005 in Family Business Review. In this study, the researchers found a high fragmentation because of the different paradigms on the family businesses literature. They specially have emphasized that the new research topics such as strategic management, conflict management, innovation, internationalization are important like succession topic. Moreover, researchers have stressed that specially internal and external variables that covered these firms and the conjuncture should be understand clearly (p: 151).

NEGLECTED DIMENSION: CORPORATE REPUTATION

Family business literature growing immediately with its different dimensions isn't as rich as reputation. Certainly, one reason of this is the description; measurement and the method of reputation arguments are very new. On the other hand, like the family businesses phenomenon's itself, lots of disciplines are interested in reputation, and also this makes the analyses unclear.

However having different dynamics, family businesses are interesting population in terms of reputation concept, too. Continuity understanding instead of achieving fast performance outputs can be seen as a more prestigious attitude for most of the second or third generation manages family businesses. Dyer and Whetten (2006: 791) suggest that family firm founders, shareholders, and managers are more likely to initiate a tradition of socially responsible business practices and to avoid harmful practices to protect the image of the firm. Especially, a disgusting business image has damaged the family name; and immediately after, it has damaged the reputation. Donnelley (1964: 98) states that the reputation of a family has direct effects not only on relations with the society but also on the operations of the enterprise: Such that local banks knowing the family grant a credit. Therefore, the reputation of the family and the reputation of the business have quite often developed in a parallel way. Hoffman et al. (2006: 137) have dealt with reputation as a family norm with obligations and expectations, identity, and moral infrastructure. The view of what the main issue of a powerful CR is that the reputation has reduced the transactional cost and created a competition advantage. Like Hoffman et al. (2006: 139) deal with in their study depending on the family capital theory when the CP generated with confidential behaviors inside and outside of the business gets stronger; the need of monitoring declines, transactional cost and capital cost decrease and efficiencies in resource procurement increase.

In spite of these pretentious arguments, the number of the studies directly focusing on the reputation of the family businesses is very limited. Reputation in most researches is just a (sub)dimension that explains the fundamental problematic but not the special problematic of the family businesses researches. The author of this study has analyzed the articles referring to the reputation concept among the articles published as a full text in Family Business between 2000 and 2007. The articles including the word of reputation more than two times have been chosen as a method. Within these studies the number of articles actualizing this condition is just seven and also the concept of reputation is one of the explanatory factors of the research subject in these articles. This subjects are natural environment policies and social responsibility (Craig and Dibrell, 2006), family capital (Hoffman et al. 2006), competitive advantage and performance (Hoopes and Miller, 2006), stewardship (Miller and Miller 2006), board-human capital (Blumentritt, 2006; Corbetta and Salvato, 2004), operational and financial performance advantages (Adams et al. 2002) growth (Mazzola ve Marchisio 2002). As a result of this quick analysis, reputation is seen as a proposal increasing the legitimacy of the business in its environment.

On the other hand, like a similar method, the articles published as a full text in Corporate Reputation between 1997 and 2007 have been searched and it has been looked for the ones that include the word of *family business* more than two times. However, no article has been found corresponded to these criteria. In the articles that include the word of *family business* just one times, the family business hasn't been focused directly (Rode and Vallester, 2005; MacMillan et al. 2005; Steiner, 2003; Carmeli and Freund, 2002). Therefore, it can be said that there is an indirect interest about the subject and "*CR in family businesses*" is the very important niche and should be examined as a special domain.

RESEARCH QUESTIONS FOR FAMILY BUSINESSES

Reputation is a construct mainly based on perceptions. Image and reputation are considered to be largely the interpretation of perceptions of the company as seen from the outside (Steiner, 2003: 178). In a perception research it is fairly important to specify the level of analysis (individual, group, stakeholder, organizational, societal, etc.) (Wartick, 2002:375). Thus, in a reputation research the question that asks "*how do the different groups within business perceive the CR*" has to be taken into consideration. Among those groups for family businesses the founders play the most critical role. It is because the founders have an underlying role in terms of company values, strategic orientation and existing philosophy and applications. According to Schein (1983) founders bring many of these assumptions with them when the organization begins; their problem is how to articulate, teach, embed, and in other ways that realize their own assumptions working in the system (p.14). As a similar way, Poza et al. (2003) have indicated that CEO-parents' perceptions differ from other two groups in the management practices (p.103) and Dyer and Whetten (2006: 789) have suggested that founders are likely to view their business operations as an extension of their identity, or self-view. Specially, the business concept, values and philosophy are the corporate identity elements. These elements are the core of the start-up and facilitate the company management. The founder's perspective of the world and their experiences strongly shape corporate identity, his or her behavior is an example to employees, the style of leadership characterizes the atmosphere within the company and personal attitude is decisive for the process of hiring new employees (Rode and Vallaster, 2005). Especially the effect of the founder continues for longer time especially in small and medium sized firms.

This powerful role is frequently emphasized as *Founder Effect Syndrome* in the literature (Kelly et al., 2000). The development of reputation for such enterprises follows a process generally beginning with founding activity and continues with individual respectability of the founder. The relationship between the founder and CR has been explained with the steward approach in some studies. Miller and Miller (2006) have stated that leaders being "insiders"-whose names are on the business and whose past, present, and future are tied to the reputation of their firm-may act especially as solicitous stewards. The philanthropy phenomenon lately stated more often in the family businesses literature can be handled in this frame as well. Family business founders or

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owners are natural philanthropists (Breeze, 2009) and some researches emphasize that family members volunteer to give ecology and education support as a social responsibility behavior (Gallo, 2004: 144). Personal reputations, especially the founders known as charitable in their social environments due to their specialities identify with the CR. Thus, the meaning referred to reputation by the founder is critically significant for strategies and practices of businesses that arises bad or good reputation: *Any company is a manifestation of its entrepreneur's vision* (Steiner, 2003: 183).

Therefore, expounding the inside and outside behaviors of the business by getting the CR perception from its founder can be an important method. So, the research questions below that examine the individual and institutional dimensions of the founder perceptions separately and try to find their relationships to each other are important:

Research Question 1: *What are the acts of a reputable business man in the founders' perceptions?*
Research Question 2*: What are the acts of reputable businesses in the founders' perceptions?*
Research Question 3*: Is there a correlation between acts of reputable business man and acts of reputable businesses in the founders' perceptions?*

On the other hand, except the founder, other family members working in different positions in the enterprise are the most important human source of these enterprises. Family members working with strong faithfulness and self-sacrifice represent the name and the values of the family within and outside of the institution. And for the continuity of the enterprise, every family member has to fulfill his or her part in maintaining the family's reputation (Guttman and Yacouel, 2007).

However, this doesn't mean that especially the founder or the owner and the other members of the family have the similar perceptions. In the study of Eddleston and Kellermanns (2006) on destructive and productive family relationships, they especially emphasize children's desire to differentiate themselves from their parents, marital discord, identity conflict and ownership dispersion among family members. Like a similar way, Sharma et al. (2000) draw attention that the family members having different perceptions about the activities of the company and the relationships among the family members are dealt with in several researches. They indicate that this situation differentiates the perception of family and business (p.237). Moreover, these views show that the analysis through the reputation perception of family members except the founder should be important.

Research Question 4: *Which businesses practices have more priority in the perceptions of reputation in the family members?*

There are three stages for the life cycle of family businesses: start-up, growth and development or early middle and latest. That stages are influenced by the characteristics of the organization, motivation of the owner-manager, extent of family dominance, the organizational climate and business environment (Andersson et al. 2002: 90). The success of a family business is related with their enterprises' passing down from one generation to another (Goffee, 1996: 42).

However, it is a well known reality that life cycle for family businesses can end up rapidly. The statistics show that only the one third portion of existing companies survive into the second generation. And only a small portion of second generation managed companies survive into the third generation. According to statistics, 30% of family businesses make it to the second generation, 10-15% make it to the third and 3-5% make it to the fourth generation (Aronoff, 2006) and only one in ten has a family member still involved in management (Goffee, 1996: 42). Thus, it is not wrong to say that continuity is a very important question and companies can face with destruction risk at succession stage. Admittedly, this has a number of reasons. In fact, most of those reasons are related to the next generations' different motivations, understanding, priorities and values. However, this subject is one of the gaps within family business literature and there are different research findings. For example, Davis and Harveston (2001) state that basic characteristics of family firms change from one generation to another. Whereas in the research made by Sonfield and Lussier (2004) concerning the generation differences it was found that the first, second and third generation shared the same characteristics and behaviors due to the forcing of families. Hence, Sonfield et al. (2005) mentioned that whether the managerial characteristics and practices change or not from one generation to another is an important question but that it is not dealt with too much. And if the reputation perception has changed has become an important debate subject for different generations.

First generation may bring some strategies in the foreground for business's living long and passing the other generation successfully; such as conservative financial strategies (less debt, more liquidity, sounder balance sheets); reputational investments (investments in innovation, R&D, quality, branding, advertising, customer service, public relations, community involvement) (Miller and Miller, 2006: 81). However, the question how these strategies creating reputation have been adopted and continued by the new generation isn't clear. The author of this study has focused this question after he has done a pilot study (Erdem, 2006). According to findings, having qualified personnel and qualified document, to be seen as a good example by other companies, to be among companies which apply contemporary business methods and management models, and transparency can directly affect company's reputation for first generation founder-owner managers in companies whose average age is 12 and 14 (n=39 person). However, the situation is different for a second generation owner of 36 years old company participating in the same research. For this owner, the reputation of a family business is directly affected by family status and success in social environment. Absolutely, this finding is very limited. Because the research has been done with a small sampling formed by owners and it is not a longitudinal study. Therefore there can not be a generalization that different generations have different perceptions. Therefore, a research question, specifically focusing on this fact, should enlighten not only the reputation problematic but also the succession problematic.

Research Question 5: *Do the perceptions of CR in family businesses differ from one generation to the other?*

On the other hand, even if the founder and the family members are the most important group of the enterprise, they are not a single group. Because different stakeholder such as external and internal groups are likely to differ in their values and beliefs and are therefore likely to judge a company's reputation in terms of different issues that are important to them (MacMillan et al.; 2005). According to CR researchers, the customers who represent the corporate image and the employees who represent the corporate identity are the two preferential groups (Davies and Chun, 2002). The employees who are characterized as internal stakeholders in the reputation literature are also important and they are typical indicators that show in what extent the company is straightforward in their effort to develop a reputation. Especially, strong employee relations have been accepted one of the most important dimensions of reputation (Adams et al. 2002). Dortok (2006) has explained this more apparently. According to him, if employees identify themselves with their company, they can work better, pay more attention to their products and this in turn strengthens the corporate culture and they can act as ambassadors of the company. Therefore, receiving the support of employees is crucial for sustaining a strong reputation.

Also in the family businesses there are differences in perceptions of family members and nonfamily members due to expectations and since in-company status for family and non-family members are different. Absolutely the most important question on this level is what the main expectations of nonfamily members from a family business are and how this situation can reflect on the CR perception. Initially, a company's fair and non-nepotistic practices are critically important for a favorable CR of non-family members. Deniz and Suarez (2005: 30) have indicated that family members enjoy more advantages in terms of rapid promotion, flexibility in remuneration criteria but this nepotism and lack of professionalism will make the company far from the fulfillment of ethical and discretionary responsibilities. However, these applications preferred by family members have damaged the perception of justice for nonfamily members. Barnett and Kellermanns (2006) have examined the strong relationship between HR applications in family businesses and the justice perceptions of non-family members. According to them, family influence in family firms may lead to agency-based problems of nepotism, free riding, and adverse selection, which are likely to have negative effects on the perceived distributive justice of nonfamily employees about outcomes related to HR practices (p: 842). However, beyond this problem, there should be more fundamental problem like the new and small firms' having more difficulty to recruiter employees and often lacking formal HR policies or systems (Cardon and Stevens, 2004: 296).

Probably, justice perceptions of reputation for non-family members must be important indicator but not unique. For example, Carmeli and Freund (2002) suggest that the appropriate working conditions for employees such as innovatory climate and job satisfaction are major determinants of reputation. In spite of the fact that the author emphasizes these conditions focus only on a human resource system's reputation, not the overall organizational reputation. Depending on these findings, although it has been understood that reputation is related with very different organizational applications for non family members but no profound empirical analysis has occurred. Therefore, the question below should be an important beginning for the non-family members:

Research Question 6: *Which organizational practices have more priority in non-family members' reputation perceptions?*

Although the reputation of the family enterprises is a quite comprehensive and specific research area for its predicates and results, it is hard to speak of an intensive interest yet. However stories of long standing and old enterprises are essentially a process of creating a reputation capital and so the reputation must be handled as a continuity variable. The research questions developed in this study focused on the most important actors creating the firm reputation and highlighted perceptions of the founder, family and non-family members as internal key stakeholders.

Doubtlessly, perceptions of other stakeholders (customer, rivals, and suppliers) must be handled with different research questions and perception differences between the stakeholder groups should be compared. While all these efforts contribute to the literature of the family businesses, on the other hand, they will provide scientific data for the executers wanting to develop and manage the reputation strategies for this kind of enterprises.

CONCLUSION

Succession is certainly vital for all companies. However, it is an ad hoc problematic for family businesses. In general, family businesses fail to manage their continuity. Today only a few numbers of family businesses survive into second or third generation. But the aim of this study is not to discuss this problem. However, the truth is that businesses which succeed in continuity have well-managed reputation. Because strong reputation takes time, and that the payoff from reputation may require longer periods to become visible (Schwaiger, 2004: 51). It's known that the firms who were able to get continuity provided this with strong ethical codes and in fact, the firms who were able to integrate reputation as a value survived. In the study made by Koiranen (2002) concerning old Finnish family firms, the top values were found out honesty, credibility, obeying the law, quality, industriousness (hardworking) and good ethical conduct. Similarly, Aranoff (2004: 59) states that a very strong set of family values related to hard work, customer and employee relations, ethical business practices and philanthropy influence the family and the business, creating a culture that gives the business a genuine competitive advantage. Even these limited determinations carry cues towards that the reputation is the most important capital for the family enterprises and show that the real power of long standing enterprises is related to their reputation rather than an impressive financial performance. So since the CR management subject has rich dimensions for the family businesses, it deserves a more deep interest from researchers. Through this aim, some research questions were suggested by taking specific characteristics of family businesses into consideration by starting from internal stakeholder perceptions. As a matter of fact, CR is perception. It is what people think, not necessarily reality, hence cognitive (Macnamara, 2006: 4).

On the other hand, there are different stakeholder groups aconcerning the enterprise and it is important to understand what these groups think about CR (Schwaiger, 2004: 68). Different stakeholders may have different reputations of the same company based on their own economic, social and personal background (Gotsi and Wilson, 2001). Macnamara (2006), attracts attention to that perception of every group is not effective in the same level on the firm and that which group is more effective primarily in the efforts concerning measuring and managing reputation. As a matter of fact, while developing the research questions on CR for a family business, starting from perceptions of the founder, family members and non-family members is a true preference methodologically. Because, the effect of behaviours of these groups is dominant over the CR. In the literature of the family businesses, it is known that the founders and the family members being the representatives of the former and the following generation affect the corporate values and behaviours closely. So in this study the reputation perception of the founder and other family members was developed as priority research questions.

On the other hand, the most important internal stakeholder group except this group is the non-family members. In the reputation researches it is suggested to handle employees as one of the key stakeholders (Macnamara, 2006). CR is an enduring asset that can be managed through employees' efforts, commitment, and unique capabilities. So employees are the first step in the sequence of managing CR to lead to superior financial performance and competitive advantage (Cravens and Oliver, 2006: 295). Moreover, emploees can develop commitment to their firms they believe to have reputation outside (Carmeli and Gilat, 2006). In the family enterprises, perceptions of employees, who are defined as non-family members, towards the CR can be affected by work conditions and also they are much likely to be affected by the nepotism problems peculiar to these enterprises. So sometimes important differences between the family members and perceptions of this group towards the CR can be available. To be able to see this difference, the employees perception must be handles as a research subject.

It is possible to increase the number of these research questions. Especially perceptions of these kinds of groups according to external groups must be researched. In the analysis of the reputation of domestic and long standing firms in the region, opinions of customers and even impression of other family enterprises carrying on activities in the same region are important. The research question to be developed in these subjects will provide important cues especially about how those successful family businesses provide the reputation management. Findings obtained from research that based on right questions would be a base for reputation management strategies and contribute to develop efficient strategies; and they would also feed a discussion area remaining lack in the family business literature.

Finally, some methodological warnings should be useful. The reputation analysis of businesses which have different size (such as small, medium and large sized enterprises), have different ownership style (such as private, public, family business or non-family business), have different stakeholders and prolong their activities in different context (such as business, sectoral, cultural context) can not be possible by a single research method and general questions (see to epistemic nature of reputation in Helm, 2005). The empirical truth of CP from whatever the respondents say (Wartick, 2002: 375). Furthermore, the author of this study choosing family businesses problematic has emphasized the methodological risk like this and has pointed a tacit critic through the quick researches. Because, the researches not having strong methods can generate the true knowledge neither for academia nor for practitioners; this problem is more critical for new research domains as family business. In the analysis of reputation perceptions, making the research questions more specific is very important for methodology. Moreover, in some facts which are open to social desirability effect like reputation, qualitative methods (such as open-ended interview, narrative analysis) can be suggested for analyzing perceptions deeply.

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MANAGEMENT OF CHANGE IN TOURISM – THE PROBLEM OF FAMILY INTERNAL SUCCESSION IN FAMILY-RUN TOURISM SMEs

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Abstract

"World-wide, the family business constitutes the most prevalent form of business organization" (Poutziouris et al. 2004, p. 7). Alpine tourism is also dominated by small- and medium-sized enterprises (SME), among which family firms represent the majority (Astrachan and Shanker 2003). Family firms are urged to perform business, strategic, and succession planning for their survival (Knight 1993). Planning for the integration of the younger generation into the family firm is an issue of strategic importance. The purpose of this article is to report the results of a qualitative study among owners of family businesses, interest groups and consultants in order to explore ways in which family internal succession in family businesses can be accomplished successfully.

Key words: SMEs, family businesses, succession, success factors.

INTRODUCTION

Small and medium-sized companies

SMEs contribute significantly to a country's gross domestic product, national employment, and export performance (Culkin and Smith 2000). According to the European Competitiveness Report of 2003, 99% of European tourism firms employ fewer than 250 employees and 94% employ fewer than six employees (EC 2003). As Pechlaner et al. (2004, p. 9) observe, "in most parts of the world, but notably in many regions of Europe, tourism has developed into … a 'fragmented industry'". The same authors note that the tourism industry is characterised by below-average company size, low growth rates, weak internationalisation, relatively low market entry barriers, and relatively poor qualification levels - all of which have significant implications for the management and competitiveness of the SMEs that dominate the tourism industry. The significant competitive disadvantages faced by SMEs in tourism include: (i) little scope for economies of scale; (ii) limited potential for diversification; (iii) lack of access to capital markets; (iv) inadequate information about the market; and (v) high debt-to-capital ratios as a result of past mis-investments in facilities that now have low utilisation rates and poor operating returns. For these reasons, many tourism SMEs face an insecure future. Research into the failure of SMEs has revealed that the following factors increase the likelihood of business collapse:

- emotional attachment to the business, which makes owners and managers reluctant to abandon the enterprise in difficult times (Brown 1987);
- no formal business or marketing background and no prior experience in the tourism industry (McKercher and Robbins 1998);
- focus on lifestyle and a desire not to grow (Getz and Carlsen 2000);
- little capital and inadequate management (especially with regard to resistance to change or taking advice) (Shaw and Williams 1990);
- inability to cope with seasonal and weekend peaks (Lundtorp et al. 1999); and
- unsuccessful business succession (Poutziouris et al. 2004; Burns 2001; Poutziouris and Chittenden, 1996; Handler 1994).

Tourism offers relatively easy entry for SMEs. Many establishments of various types can be set up with low capital requirements and operated at low cost by a few people. In many cases, the motivation for involvement in these businesses relates as much to lifestyle, location, and leisure preferences as it does to a desire for profit or security (Getz and Carlsen 2005; Ateljevic and Doorne 2000; Getz and Carlsen 2000). Moreover, as Wanhill (2000) notes, the authenticity of a tourism experience for consumers can be enhanced by contact with local residents, which explains the appeal to many cultural tourists of bed & breakfast establishments, farm-stays, and the like. This might refer to the local roots and long-term and personalized management and ownership structure in SME family firms. It is therefore not surprising that, in many countries, tourism is dominated by SME family-owned businesses (Getz and Carlsen 2000; Morrison et al. 1999; Thomas et al. 1999; Smallbone et al. 1999; Buhalis and Cooper 1998). Despite the fact that worldwide the majority of SME firms are family firms, the "family component" has often been neglected in organizational research (Dyer 2003). Recently, several scholars concluded that omitting the family as a variable in organizational research and management of change can lead to incomplete and misleading findings (Dyer 2003; Gómez-Mejia et al. 2001; Schulze et al. 2001). The main reason is that interpersonal connections differentiate family from non-family businesses (Milton 2008).

Against this background, it is apparent that - apart from other features about family firms like family control and involvement - the traditional SME structure of tourism family businesses in many countries (especially in Europe) has become a real disadvantage. It is the contention of the present study that the management orientation and particularly strategic decision-making of SME family businesses needs to change if they are to remain competitive in the future. The paper at hand, however, only focuses on one challenge within the management of change in family businesses, and that is family internal succession and answers the following main research questions:

a) What characteristics and qualifications should internal successors have?
b) What is the ideal time for family internal succession?
c) Why do family internal successions fail?

After a theoretical discussion on characteristics of family businesses and on the challenges of family internal succession, a qualitative empirical study is presented to understand how selected stakeholder groups in the Tirol see the problem of family internal succession in tourism family businesses.

FAMILY BUSINESSES

Family businesses are the predominant form of enterprise around the world (Gersick and Davis 1997). “In Europe, 70% of businesses are family owned or controlled” (Getz et al. 2004, p. 1). Family businesses form the majority of tourism and hospitality businesses, as tourism “offers many opportunities for family businesses, often embodying direct host-guest interaction in the family home or property” (Getz and Carlsen 2005, p. 237). Family business has no commonly accepted meaning and many authors have noted there is no consensus definition of a family business (Upton and Heck 1997; Wortman 1994).

Several authors have called for definitions that use multiple conditions to identify family businesses (Handler 1994). Among the definitions for family business that involve multiple conditions, many use requirements such as family ownership and control, family influence on decision-making, and intent to transfer the firm to the next generation (Sharma et al. 1997). According to Holland and Oliver (1992, p. 262) “a business firm may be considered a family business to the extent that its ownership and management are concentrated within a family unit, and to the extent its members strive to achieve, maintain and/or increase intra-organizational based relatedness.” Lea’s definition of a family business reads as follows: “A business is a family business when it is an enterprise growing out of the family’s needs, built on the family’s abilities, worked by its hand and minds, and guided by its moral and spiritual values” (Lea 1998, p. 1). Defined simply, family businesses are “owner-operated/managed ventures with family members (and/or family units) predominantly involved in the administration (managerial and financial), operations and strategic determination of corporate destiny” (Poutziouris et al. 2004, p. 8).

Family businesses merit special attention because they are especially complex, as potential conflict might arise between the family system and the business system (see figure 1), providing different roles among the company – family members, non-family investors, non-family employees, family shareholders, non-family working owners, working family members, working family owners and family owners and business leaders.

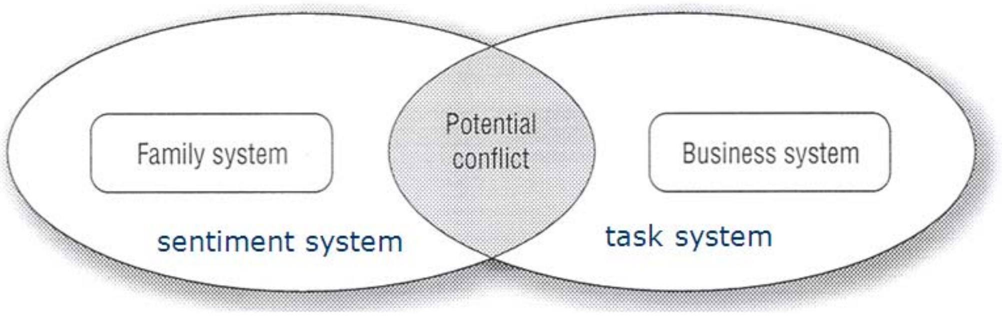

Figure 1. The two broad systems of family business (source: adapted from Burns 2001, p. 359).

The simplest model of family business structure is two-dimensional. Family businesses are a coupling of two relationships: (a) the social function, which is based on the emotional relationship of the family unit and where decision-making is often not based on a rational process; and (b) the business or task function where results are based on relationship and where the decision-making process must be based on an objective, economic model. Most of the difficulties and conflicts in a family business are the result of mismanaging the social and business relationship. While the family is taking care of family members and focuses on employment and advancement in the firm, the business system is more involved in production and distribution of goods and/or services, is aware of the need for professional management and aims at operating the firm in an effective and efficient way. However, this perspective is potentially endangered by what has been labelled 'subsystem stereotyping' (Whiteside and Brown 1991). Hence, it can be stated that the family system and business system differ in terms of various dynamics (see table 1). Therefore, it seems essential that clear organizational goals and objectives are established among the family business, a code of conduct is developed, clear policies regarding career development, compensation, promotion and performance appraisal must be established and an organization chart should be designed and communicated to all family members (Taylor 2006).

Table 1. Complexity of family businesses (Source: Taylor 2006, p. 4).

Dynamics	Family System	Business System
Basic motive	- to seek harmony	- to seek profit
Operating principles	- incorporate compassion and caring	- incorporate efficiency and objectivity
Rewards	- given because of one's membership in the family - sometimes because of need	- given because of performance on specific tasks
Promotions	- based on longevity - it is an inflexible system - promotion is born into a position	- based on skill and seniority - hard work can result in a new position
Training	- implicit - not standardized	- explicit - necessary to get a good job - standardized
Separations	- usually messy - no clear guidelines for process	- less painful - clear guidelines to follow - is a common process

While it has generally been accepted that family-controlled businesses differ from professionally managed firms, little empirical research has been done to support and advance our understanding of this premise in former days (Daily and Dollinger 1991). More recently, several studies have been undertaken that emphasize family businesses as an integral aspect of economic activity and organizational life (Aldrich and Cliff 2003; Steier 2003). Hence, there are several advantages and disadvantages that family firms encounter.

As far as advantages are concerned, family firms are often praised for their ability to nurture a sense of loyalty, a stable culture, long-term strategic vision and commitment, and pride in family tradition. Family can foster high ethical standards, positive commercial values, and a sense of responsibility, which can contribute to the transfer of entrepreneurial skills from one generation to the next. Family companies do have higher levels of concern for their community and non-family employees. Other advantages include concern and respect for individuals, and operational flexibility, particularly in terms of ad hoc business solutions, human resource management, and reward systems. Moreover, family members take a long-term view of their investments. Another positive issue is that decision-making is faster in family firms than in non-family companies (Burns 2001; Habbershon and Williams 1999; Nahapiet and Ghoshal 1998).

On the negative side, family firms can suffer from a number of disadvantages, including introversion, adoption of conservative philosophies in terms of sourcing financial and human capital, lack of professionalism, nepotism rather than meritocracy in promotion practices, rigidity, informal channels of communication, family feuding, and the absence of strategically planned succession (from the perspective of management, ownership and leadership) (Poutziouris et al. 2004). Often, private matters spill over into enterprise, which lead to discord, conflict, friction and disputes. One of the main issues family companies need to cope with is conflict between family and business, especially when there are differences between the family and business culture (Steier 2001). Finally, family businesses often have a tunnel vision, i.e. family firms can stumble when they focus on the past instead of the present or the future (Allio 2004). The most challenging disadvantage of family firms, however, is the problem of succession, which is seldom systematic and trouble-free.

THE PROBLEM OF FAMILY INTERNAL SUCCESSION IN FAMILY BUSINESSES

One of the most central problems facing family businesses is the ability to ensure competent family leadership across generations when it comes to business succession (Le Breton-Miller et al. 2004). “Succession is the ultimate test of a family business” (Berkel 2007, p. 21). Basically, two forms of succession can be identified – family internal and family external succession with united or separated ownership and management (see table 2).

Table 2: Succession options of family businesses (Source: Kirst and Bieler 1996, p. 65).

	Ownership and management are united	**Ownership and management are separated**	**Ownership and management are given up**
Family internal succession	Family member	Going public Employee participation Family donation	Liquidation
Family external succession	Management buyout Management buy in	External management Company sale, but management by former proprietor	Sale to third person

This article focuses on family internal succession. Many authors have suggested strategies for the younger generation's entry into the family firm. Most authors agree that children should work elsewhere early in their careers with most successors joining the family firm upon completing their education. Basically, intra-family succession is a problem in family business due to emotional issues, difficulties in business, failure to plan and other tensions and conflicts which might be raised. Hence, family internal succession often is problematic and can lead to conflict. Poutziouris and Chittenden (1996, p. 35f) observe that “four out of five family businesses are managed by the first generation, which benefits from the entrepreneurial drive of the founder. However, less than one third of founders successfully pass ownership and management control of the family business to the second generation. Only 10 per cent of the second generation family firms are transferred to third generation and less than 5 per cent ever reach beyond the third generation of family management.” Although many father-son or father-daughter relationships can work extremely well, there is a unique potential for conflict especially when it comes to discussing internal succession. The reason lies in the very close emotional link, which needs to be addressed between the two parties, among whom all issues surrounding the succession need to be addressed and agreed upon by the next generation. From the discussion on the characteristics and challenges of family internal succession, assumption 1 can be derived:

Family conflicts might be problematic and hinder family internal succession.

The usual approach to managing succession often is to ignore the issue. “It is almost as if owner-managers, particularly founders, are in denial about ever leaving the firm. It is a blind spot that they do not wish to discuss” (Burns 2001, p. 368). However, if succession is not planned and managed, it can become a stressful event. To aid the understanding of family business dynamics during the process of succession, the life-cycle framework might be helpful (see figure 2). “Essentially, it is a four-stage model that repeats, with increasing complexity as new generations join the firm” (Burns 2001, p. 362). There are strategic reasons for determining the timing of both entry in the firm and succession to power. While in stage 1, beyond start-up, the founder is in control, son or daughter is slowly introduced into the business. In stage 2, it would be vital to take the decision if the company is passed on to the son or daughter. In this case, a process of training and development should take place to groom the successor for his role. Stage 3 then is the stage when the successor shows sufficient expertise and the founder starts to loosen the reins of control and starts to delegate authority and share responsibility. At stage 4, strategic planning, management control and operational responsibility shifts from one generation to another. Therefore, “the most successful sucessions are those that involve the next generation early in the process so as to allow them to grow into the role rather than coming as an unexpected ‘event’” (Burns 2001, p. 369).

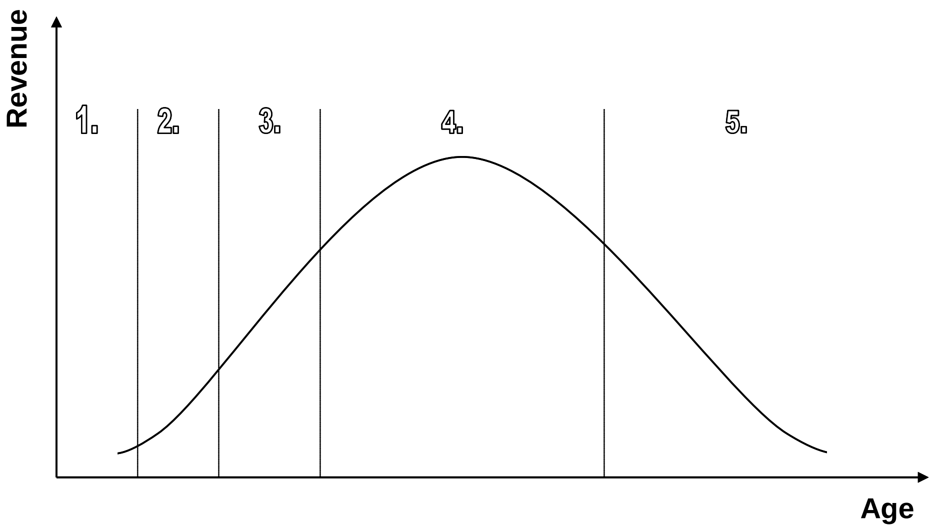

Figure 2. Succession as part of the company’s life cycle (Source: Lundtorp and Wanhill 2001, p. 948).

From the discussion on the right time and planning of succession, assumption 2 can be derived:

The time span of succession planning is essential for family internal succession success.

Hence, there is some consensus among literature that succession shall be anticipated and planned in advance (Dyck et al., 2002; Sharma et al., 2001). It makes sense to have a succession plan, which incorporates the following elements: (1) evaluation of succession goals for feasibility and compatibility and early inclusion of the offspring, i.e. proper mentoring & training, (2) gradual transfer of power, i.e. allowing for a smooth transition of management control, adjusting the job to fit the skills of the successor(s) by dividing the roles, (3) family & non-family members must be encouraged to participate in the succession process, (4) next generation family members' career, seniority, ages and need must be considered, and an inheritance plan must be developed and discussed with the family members, i.e. allowing only qualified competent family members to assume leadership roles in the firm increases the value of the firm for all who have an ownership interest in it (Moores and Barrett 2002). It is important though, that the succession plan is communicated and accepted by all family members. Hence, resolve conflict situations (assumption 1) and 'start planning early' (assumption 2) seem to be the most important imperative.

In the following paragraphs a qualitative study is presented to test the assumptions and answer the research questions.

EMPIRICAL STUDY

The paper reports a qualitative study by means of expert interviews (n=15) in the Tirol, Austria. In order to get an insight into various perspectives of family internal succession and to relate to the heterogeneity of the tourism sector, three stakeholder groups were surveyed. One group (n=5) were hotel entrepreneurs who will hand over their family business to the next generation in due time, the second group (n=5) were consultants, who mainly focus on consulting services prior and during succession, and the third group (n=5) were members of political pressure groups in tourism, which are also involved in succession processes. The type of interview was a semi-structured interview conducted personally face-to-face with the fifteen interviewees in May 2009. The data was taped and transcribed and content analyzed with Mayring's method of content analysis.

"Content analysis is a research technique for the objective, systematic, and quantitative description of the manifest content of communication" (Berelson 1952, p. 18). Qualitative content analysis defines itself within this framework as an approach of empirical, methodological controlled analysis of texts within their context of communication, following content analytical rules and step by step models, without rash quantification. Mayring's concept of qualitative content analysis was developed in the 1980s with the main idea "to preserve the advantages of quantitative content analysis as developed within communication science and to transfer and further develop them to qualitative-interpretative steps of analysis" (Mayring 2000, p. 2). The main steps within this method of content analysis are the steps of summary, specification and structuration with the main aim to reduce verbal data (word, word sentence, phrase, themes, etc.) into categories. This helps determine the presence of certain words or concepts within the text and reduces the text into manageable categories on information. Verbal data was analyzed by the two authors separately and subsequently controlled for inter-rater reliability.

MAIN FINDINGS

The next few paragraphs list the most important findings of the qualitative study. For each question presented, authors provide both, an overview in figures by listing counts and selected direct quotations from the verbal data gathered from the interviewees. First of all, authors were interested which characteristics family internal successors should dispose of when they take over the family business (see figure 3).

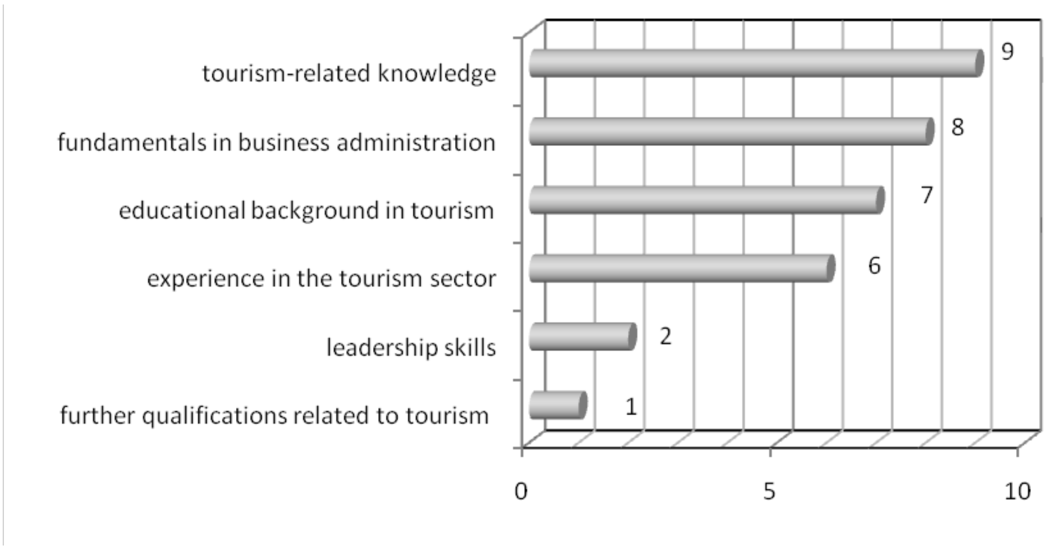

Figure 3. Most important characteristics of successors.

The content analysis produced six different categories, which interviewees articulated relating to the most important characteristics and qualifications of successors. Results show that the majority of respondents (n=9) said that tourism-related knowledge is essential for succeeding in a family business in tourism. One interview partner from the group of the consultants states as follows: *"I think it is essential for successors to have theoretical knowledge of tourism and/or working experience in the tourism field. Of course, it would be the best if a successor has gained both types of experiences. In the tourism field, it is important that you know how to deal with guests, even if they are sometimes a little bid nasty" (translated).* Secondly, fundamentals in business administration seem to be vital (n=8). One interview partner from the group of the hotel entrepreneurs who will hand over their family business to the next generation says in the interview: *"I did have hardly any background in business administration and was 'learning by doing'. However, my son, who will take over the business in about two years, he has graduated from the commercial academy and will therefore be much more qualified than I was some thirty years ago" (translated).* This is followed by an educational background in tourism, i.e. a university or high-school degree in tourism (n=7) and experience in the tourism sector (n=6). Another characteristic that a successor should incorporate are leadership skills (n=2). One interview partner from the political pressure group articulates as follows: *"Social competencies, especially communicating and handling guests, is of prime importance. In case a successor is lacking these competencies, the family company can be regarded as an 'empty' property, i.e. it still is a property, but no longer a tourism business. As far as my experience is concerned, this was one of the most prevalent problems of the last couple of years, which has led to an identity crisis of Alpine tourism service providers"(translated).* One interview partner (n=1) also stated that further qualifications related to tourism are important.

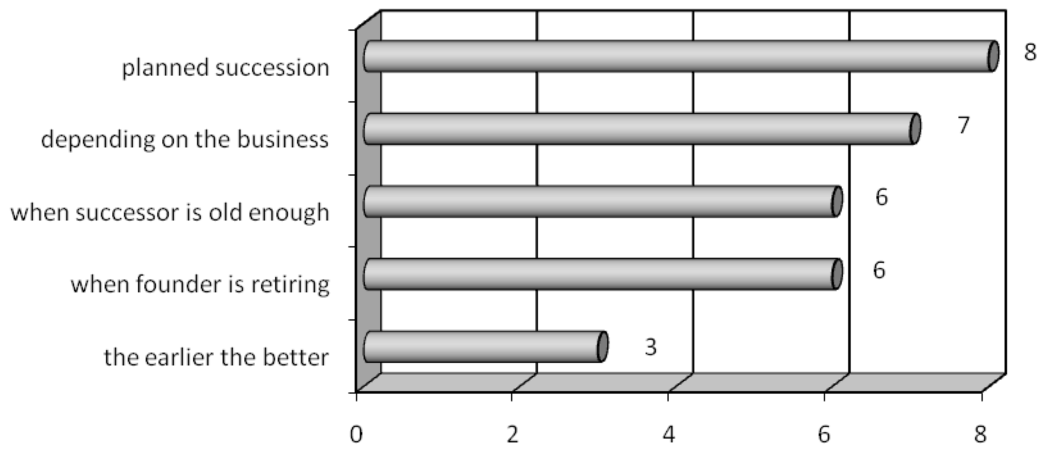

Figure 4. Ideal time for family internal succession.

According to literature, succession should be started already in stage 2 and be completed in stage 4 of the lifecycle of the family business (Burns 2001). Therefore, interviewees were also asked when they think the right time for family internal succession, respectively for succession planning, in tourism family businesses is (see figure 4). It is interesting to see that only three of the interviewees believe that succession should start the earlier the better (n=3), as literature suggests. One interview partner from the group of the consultants states: *"If you ask me, the successions which I went through as a consulting party, were too late, to be honest. I believe that a succession is the most successful the earlier one generation hands over the family business to the next generation. I think it's the worst case when this happens only shortly before the older generation retires. At least my experience shows that this is too late and traditions and values are so much integrated into the family business, that it is very hard for the successor to bring his ideas and values into the business" (translated).*

More than half of the interviewees (n=8) state that a planned succession is the best way of managing succession in family businesses. One interview partner from the group of the hotel entrepreneurs who will hand over their family business to the next generation states in the interview: *"I think that – be it earlier or later – the most successful way of succession is when it is planned beforehand. In my case, my son and I did already talk about the time and the way our succession will take place a couple of years ago. I think it is vital that both parts are integrated into succession planning. In my family, it was clear that my son is the one who will be the successor. And I think we have planned and organized the succession in a way it should work" (translated).*

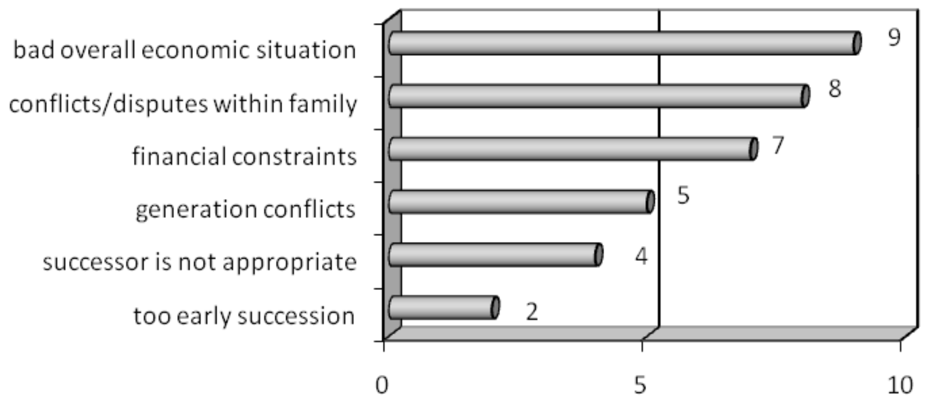

Figure 5. Reasons for intra-family succession failure.

Furthermore, it was interesting to know what the main reasons for family internal succession failure are. Interviewees mention the following reasons for succession failure: bad overall economic situation (n=9), followed by conflicts and disputes within the family which go along with the succession (n= 8), financial constraints (n=7), generation conflicts which often are due to the fact that the founder cannot let go (n=5), successor is not experienced enough to take over the family business (n=4) and the succession has been initiated too early (n=2). One interview partner from the group of the consultants for instance says: *"Internal succession can fail due to family conflicts, i.e. conflicts within the family which could not be solved before the succession. Another issue is the financial situation of a family-run business. If the financial starting position for a successor is bad, the harder it is to take over and maintain the business. Often, however, it is none of these factors but rather the missing experience of the successor, which results in situations where the successor is simply overstrained with the new task and burden" (translated).*

INTERPRETATION OF RESULTS

The topic suggests that it is a big challenge and responsibility to manage intra-family succession in family-run SME companies. On the basis of the findings of the literature review, the paper puts forward two assumptions regarding the management of intra-family succession in family firms, which shall now be discussed.

Assumption 1: Family conflicts might be problematic and hinder family internal succession.
As the empirical study shows, conflicts and disputes within families are seen to be the second most important reason for succession failure by 53% of the interviewees. Hence, it seems as if family internal succession, even if planned and managed, can be a stressful event and rise tensions among the family. As Burns (2001, p. 366) puts it, "the only way to resolve conflict in the family firm is to resolve conflict in the family". Relationship challenges are partly due to the nature of roles involved in a family business setting (Milton 2008). This means that after having understood the nature of the problem, the family needs to settle the conflict according to their family's values. Hence, assumption 1 cannot be falsified for the present empirical study.

Assumption 2: The time span of succession planning is essential for family internal succession success.

Literature argues that succession should be started already in stage 2 and be completed in stage 4 of the lifecycle of the family business. The empirical study confirms that the majority of interviewees (53%) believe that a very well planned transition is the best way of managing intra-family succession in family businesses. Contrary to literature, interviewees do not think that it is good to start succession the earlier the better (n=3). Another six interviewees say that it cannot be generalized when succession should be started as it depends on the individual business. Moreover, one interviewee admitted that firm external experience of successors is also vital before they take over the parents' firm. Furthermore, interviewees were asked to rate reasons for succession failure. While many of them think that the bad overall economic situation might lead to succession failure, a few also believe that a too early succession might fail. This is interesting as literature suggest starting succession as early as possible guarantees a successful succession (Moores & Barrett, 2002). However, interviewees cannot support this issue; hence the assumption for the present empirical study is falsified.

Limitations of the study

Before summarizing the contributions of this study, it is important to highlight its limitations. The present study has two major limitations that need to be taken into account when considering the results of the study and its contributions.

First, the results are based upon a small sample size (n=15) that should not be generalized to the population at large. This is a major shortcoming that might be explored and addressed in future research. Hence, to complete the overall picture, a broader survey among family-run tourism companies by means of a quantitative survey in the Tirol would be most valuable.

Another shortcoming of the study is that the authors only investigated intra-family succession and challenges that come up with this type of succession. No attention was paid to the various opportunities of external succession of family businesses, such as management buyout, management buy in, external management or liquidation. These forms of succession might present other issues to be considered.

CONCLUSIONS, IMPLICATIONS AND OUTLOOK

Family companies can be attractive due to the emotional support and helping hands which foster loyalty, responsibility, long-term commitment, and also ethical standards. There is, however, potential for conflicts as the family culture is essentially based on emotion, whereas the business culture is rather unemotional and task-oriented. Family internal succession can be one of the most troublesome issues (Zwick and Jurinski 1999). This is due to the entrepreneurial characteristics of the founder, father-son rivalry or the refusal to relinquish control. However, succession can be managed if it is started early in the lifecycle of a company and if it is planned accordingly. Succession in tourism family businesses has seen considerable change in the last few years. Succession goes away from tradition and leaves more and more the decision on succession to the founder, i.e. he decides about management buy-out, management buy-in, appointment of a professional manager, or even liquidation. This issue is largely agreed upon by interviewees.

Nevertheless, the results of this study have implications for managers and researchers. In terms of theoretical implications, the findings of the study make a valuable contribution to the debate on issues surrounding succession practice and raise awareness of the critical factors shaping ownership transition. In terms of practical implications of the study, results showed that there are potential prerequisites for taking over a family business and for planning an intra-family succession. The empirical survey reveals that tourism-related knowledge is one of the most essential qualifications of successors and that solid succession planning is one of the most crucial issues when it comes to generational succession of family businesses. Family businesses which are confronted with the challenge of succession in the future should bear these issues in mind in order to successfully complete their generational family business succession.

To conclude it can be said that the study discusses the challenges of family internal succession in family-run tourism businesses from a theoretical and an empirical perspective. As family dynamics is a crucial factor in the family business, the paper implies the need to involve founders and successors at an early stage of the company's lifecycle and to think about success factors of the succession process. However, increased research on the family dimension in tourism businesses will contribute to a broader understanding of family business dynamics and challenging issues like generational succession.

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