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EDITOR OF THE ELECTRONIC JOURNAL OF FAMILY BUSINESS STUDIES (EJFBS)

Mr. Juha Kansikas (Editor) Kansikas@econ.jyu.fi
Ph.D. School of Business and Economics
University of Jyväskylä Finland
Tel. +358 (14) 260 3166

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EDITORIAL NOTES

This is the first number of the Electronic Journal of Family Business Studies (EJFBS).

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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Call for Papers (including information for authors and submission format) can be found at the end of the EJFBS.

15 May 2007

Juha Kansikas
Editor, Electronic Journal of Family Business Studies
Kansikas@econ.jyu.fi
Tel. +358 (14) 260 3166

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NURTURING THE INTERPRENEUR

Frank Hoy[1]
Centers for Entrepreneurial Development,
Advancement, Research and Support
University of Texas at El Paso
El Paso, Texas 79968
USA
1-915-747-7727 (phone)
1-915-747-8748 (fax)
fhoy@utep.edu

Abstract

Few topics in the family business literature have been studied more than management and ownership succession. In today's competitive global economy, businesses find that innovation, growth and other entrepreneurial behaviors are necessary to survive and prosper. Ernesto Poza (1988) proposed a model for developing entrepreneurial orientations and actions in family business successors, labeling those successors *interpreneurs*. This study reports the results of interviews with five second-generation company owners and determines how well their experiences match the precepts of Poza's model. Analyses find that the CEOs behaved entrepreneurially post-transition, but with few examples of conscious preparation by the preceding founders. For the five cases studied, family relationships and business involvement in childhood and adolescence appear to have been influential factors.

Key words: succession; entrepreneurship; corporate entrepreneurship; intrapreneurship.

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[1] Frank Hoy is director of the Centers for Entrepreneurial Development, Advancement, Research and Support at the University of Texas at El Paso in the United States, where he spent ten years as dean of the College of Business. He is currently serving as vice president of the U.S.-based Family Firm Institute.

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INTRODUCTION

Stereotypes persist. Within large populations, examples can always be found that reinforce stereotypes, and humans are known, stereotypically, for engaging in selective perception. There are well-known stereotypes of small businesses and family-owned enterprises, many negative (Barnes and Hershon, 1976). Small family firms are often referred to as 'mom & pops', implying no-growth businesses that family members substitute for employment elsewhere. The phrase, "shirtsleeves to shirtsleeves in three generations," suggests that the business and wealth created by a hard-working founder will be squandered by spoiled grandchildren. The dictionary definition of nepotism refers to favoritism given to a relative, connoting questionable competence on the part of the relative, a circumstance long associated with family-owned companies (Donnelley, 1964).

Yet we know that family businesses dominate in numbers the economies of most countries. And many survive for multiple generations. The purpose of this article is to review prior research on how successors have been groomed for leadership, to examine cases of successful transitions, and propose conditions for preparing the succeeding generations to be entrepreneurial.

The notion of an entrepreneurial successor is a relatively recent one. Early studies of small business owners questioned whether founders could make the transition from entrepreneur to professional manager. In their much-cited article, Hofer and Charan (1984) proposed steps for entrepreneurs to take in order for their management skills to grow and develop along with their businesses. The fact that there was a perceived need for such advice makes a statement about the entrepreneurial stereotype. Such viewpoints are not extinct. A 2007 article by Chittoor and Das defines professionalization of management as "succession of management from a family member to a nonfamily professional manager" (p. 67). Similarly, Songini (2006) considered non-family involvement to be a requirement for the professionalization of a firm. She accepted board members as qualifying as involved, not just managers. Thus, prescriptions have been often for the succeeding manager, family member or otherwise, to bring administrative skills to the organization. Greater awareness of the competitive environments of the global economy has caused both scholars and practitioners to value innovation and growth orientations as positive characteristics of chief executive officers. As businesses mature, leaders are charged with being more entrepreneurial in their behavior.

Ernesto Poza (1988) coined the term 'Interpreneur' to identify a family member who succeeds a business owner, bringing an entrepreneurial attitude to the leadership role. The interpreneur may grow the firm to a new level, but may also turnaround a firm in decline, typically with innovative approaches. Poza proposed criteria for preparing interpreneurs in family ventures. This study examines some interpreneurs and compares their experiences with Poza's normative model.

PREPARING SUCCESSORS

Early contributors to the business management literature emphasized functional management skills, with the ability to integrate those skills being critical to advancement up the organization ladder. Another time-honored recommendation for developing successors is that they should obtain work experience in organizations other than the family business before joining the firm. This presumably builds their self-confidence and also affords them credibility when entering the family business. Researchers have found this to be rare in practice, however (Barach, Ganitsky, Carson, and Doochin, 1988).

In a study sponsored by the United States government in the 1980s, Pratt and Davis (1985) identified several factors that inhibited entrepreneurial actions by second generation owners:

- Emphasizing continuing a tradition rather than running a business.
- Concentrating on perfecting a product or service instead of diversifying.
- Avoiding loss of control that could result from mergers, acquisitions, and stock sales.
- Maintaining a secretive environment.
- Recruiting less qualified personnel to ensure family member superiority.

Applications of life cycle theories have highlighted sources of conflict between generations (Lansberg, 1988; Peiser and Wooten, 1983). Founders may find themselves reenacting with their offspring struggles they experienced with their own parents when they were young. Children may become impatient with attempts by retiring parents to continue to exercise power both over the business and family members. Not only do the goals of the two generations collide, but they may also be in conflict with the needs of the business resulting from the life-cycle stage of the firm. The recognition and acknowledgement of sources of conflict due to life cycle differences may enable founders to improve communication with successors and develop them for leadership roles (Hoy, 2006).

LESSONS FROM CORPORATE ENTREPRENEURSHIP

The corporate entrepreneurship literature provides some guidance regarding entrepreneurial activities in existing ventures. Although various terms (e.g. corporate venturing or intrapreneurship) have been in vogue with shades of difference in definition, no such distinctions are drawn here. *Intrapreneuring*, the term from which intrapreneurship was derived, was coined by Gifford Pinchott III (1985). He labeled “Those who take hands-on responsibility for creating innovation of any kind within an organization” (p. ix) as intrapreneurs. Corporate entrepreneurship has been associated with the creation of new ventures within larger organizations, with innovation, strategic renewal and other actions that extend beyond normal business transactions. Not all family businesses are corporations. Nevertheless, this literature addresses existing and mature firms and the entrepreneurial strategies they employ, suggesting a proxy for the maturing family enterprise that may call upon the succeeding generation to reenergize the business.

What are observable entrepreneurial events in an existing business? The most obvious and the most frequently occurring in the literature is the creation of an internal venture, but corporate entrepreneurship encompasses a number of activities besides start-ups. “The large corporation can be as good an arena for practicing entrepreneurship as the growth-oriented start-up. Creating value and advantage, the chief outcome of entrepreneurial activity, can be achieved by uniquely reshaping

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physical structure and financing as by delivering unique products and services" (Mitton, 1988, p. 537).

Melin (1986, p. 727) defined an entrepreneurial activity as "…an action that implies fundamental change in existing patterns, first in mental patterns, and then in more tangible patterns, as the external product/market relations of the firm." Elder and Shimanski (1987) included redirection decisions under corporate venturing, i.e. changing strategic direction after investing substantial amounts of time and money in an original direction that may have resulted in failure.

A few authors have proposed classifications of corporate entrepreneurs and ventures. Kanter (1983) labeled four types of entrepreneurs: system builders, loss cutters, socially conscious pioneers, and sensitive readers of cues about the need for strategy shifts. "These 'new entrepreneurs' do not start businesses; they improve them. They push the creation of new products, lead the development of new production technology, or experiment with new, more humanly responsive work patterns" (Kanter, 1983, p. 210). Morris, Kuratko and Covin (2008) listed seven ways in which corporate entrepreneurship may be manifested: traditional R&D, ad hoc venture teams, new venture divisions or groups, champions and the mainstream, acquisitions, outsourcing, and hybrid forms.

Vesper (1984) suggested that a corporate venture is one that satisfies one or any combination of the following three criteria:

- New strategic direction
- Initiative from below
- Autonomous business unit creation

He distinguished corporate ventures from other non-entrepreneurial activity, including ordinary new product development, acquisition, joint venture, venture groups or divisions, and independent spin-offs. Alternatively, MacMillan, Block and Subba Narasimha (1984) included joint ventures and acquisitions in their conceptualization of corporate entrepreneurship.

Ellis and Taylor (1987) proposed four types of corporate venturing (Table 1). They provided strategy and structure criteria that can be used to classify businesses. They further identified driving forces behind intrapreneurial activity: organizational conditions, sponsorship, management profiles, venture processes, and rewards.

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Table 1. Creating the Culture that Supports Interpreneurship.

Setting the Stage	Identifying and Managing Barriers to Change	Specific Interventions	Outcomes
Strategic exploration	Absence of growth vision	Specialization Diversification	Profitability Growth
Organizational change and development	Distance from customers, employees, operations, and the competition	Entrepreneurial approximations	Family harmony
		Task and business teams	
Financial restructuring	Nervous money and short-term focus	Reward system changes	
Family system change	Large overheads and perception of high social (image) risk	Information systems	
	Obsession with data and logic	Family venture capital company	
	Inappropriate boundaries between management, owners, and the interpreneur	Ownership equity structures	
		Human resource policies and practices	

Source: Poza (1988, p. 341).

Models for developing intrapreneurs focus on the internal culture of the organization. Key variables are structure, reward systems and mentors. An assumption of corporate entrepreneurship is that the internal environment can facilitate or constrain entrepreneurial behavior. An elaboration of constraints may be found in Morris (1998). McGrath and MacMillan (2000) presented a set of questions for executives, which can be viewed as a checklist for promoting entrepreneurial initiatives within a larger organization. Examples of the questions include, “Am I visibly allocating disproportionate resources to entrepreneurial initiatives?”, “Am I consciously orchestrating an entrepreneurial development process?”, “For each specific initiative, especially new business ventures, might we need internal path clearing?” (pp. 334-335). Pinchot (1985) had a similar list of questions directed toward the intrapreneur, such as, “Do you think about new business ideas while driving to work or taking a shower?”, “Do you get into trouble from time to time for doing things that exceed your authority?”, “Would you be willing to give up some salary in exchange for the chance to try out your business idea if the rewards for success were adequate?” (p. 31).

Most models do not ignore the role of the individual as intrapreneur. They look at some of the same characteristics as are found in the family business literature, although omitting the effects of family on the individual. Morris, Kuratko and Covin (2008) showed the personal characteristics, personal environment, and personal goals as motivating factors on the decision of a manager to behave entrepreneurially.

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FROM INTRAPRENEUR TO INTERPRENEUR

Many models are available in the family business literature that proposes causal variables for effective management and ownership succession (e.g. Lambrecht and Donckels, 2006). Few, however, explicitly emphasize preparing the successor to be an entrepreneurial leader. Building on Drucker's assertion that he knew of "…no business that continued to remain entrepreneurial beyond the founder's departure unless the founder has built into the organization the policies and practices of entrepreneurial management" (1985, p. 170), Poza (1988) developed a framework for supporting 'interpreneurship.' He defined interpreneurship as organizing and supporting "… a revitalization of the business just prior to or during the time of the next generation" (p. 340). The components of Poza's framework are reproduced in Table 2. This study investigates changes in strategy, organization, business finances, and the family that he argued set the stage and established the policies and practices for interpreneurship.

Table 2. Venture Types - Postulated Distinctions.

VENTURE TYPE	STRATEGY	STRUCTURE	PROCESS	RISK
Corporate	Unrelated venture	Independent unit	Assembling and configuring of novel re-sources	Unique very high
Business	Mostly related	Semi-autono-mous unit	Resources held in diverse corporate locations	High
Product/ Market Extension	Closely related new product, new market	Added to existing structure	Remarshalling or sharing facilities within the business	Mode-rate
Efficiency	Integral	Unaltered structure (Inside business)	Modifying existing operations	Low

Source: Ellis & Taylor (1987, p. 529).

While the nature of entrepreneurship has been described as disruptive and discontinuous, Poza made the interesting contention that successful interpreneurship is planned, orderly, almost evolutionary. He described strategic change as a natural progression from founder to inheritor, with the succeeding generation maintaining a sensitivity to their parents as they map a future course of action. Organizational changes are reflected in structural approaches designed to institutionalize growth, encouraging autonomy among units in order to compete successfully within their environments. Financial restructuring relates to ownership transition and sets the stage for new ventures. Family cultures can facilitate or constrain interpreneurship.

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Of particular concern are leadership patterns. García-Álvarz and López-Sintas (2006) proposed a socialization matrix indicating means by which different types of family business founders could convey their leadership values to the second generation. The family business literature stresses the need for individuation by the successor, establishing an identity distinct from the family. A parallel but somewhat different characteristic in the corporate entrepreneurship is individualism, encapsulating self-orientation, self-sufficiency, and self-control. Individualism is manifested by pursuing goals that may not be consistent with those of colleagues or by deriving pride from one's own accomplishments (Morris, Kuratko and Covin, 2008).

Poza argued that identifiable barriers exist within family firms that are obstacles to interpreneurship:

- absence of a growth vision,
- distance from customers, employees, operations, and the competition,
- nervous money and short-term focus,
- large overheads, perception of high social (image) risk, and
- inappropriate boundaries between management, owners and interpreneur.

In comparison, Morris, Kuratko and Covin (2008) listed the following limitations of the corporate entrepreneur:

- lack of political savvy: learning to work the system,
- lack of time: crisis management,
- lack of incentive to innovate: beyond tokenism,
- lack of financial credibility: inability to project believable numbers,
- lack of people skills: autocracy rules,
- lack of legitimacy: untested concept and untested entrepreneur,
- lack of 'seed' capital: the problem of early resources,
- lack of open ownership: protecting turf,
- lack of a sponsor: someone to watch over you,
- lack of energy and shared enthusiasm: the inertia problem,
- lack of personal renewal: the issue of reinforced denial,
- lack of urgency: fear as good and bad, and
- lack of appropriate timing: the resource shift dilemma.

The second list is far more exhaustive than the first, immediately calling attention to the fact that the interpreneur not only has obstacles related to being in business with family members, but also has to overcome barriers inherent in organizations generically.

What are some remedies for overcoming obstacles? Morris, Kuratko and Covin propose that intrapreneurs 1) build social capital through sharing information, creating opportunities for others, and building networks; 2) gain legitimacy by endorsing the work of others and achieving small successes of their own; 3) develop political skills; and 4) acquire resources through borrowing, begging, scavenging, and amplifying. Poza's suggestions directed specifically at family businesses are shown in Table 3. He leaned more toward indirect approaches via creating an interpreneurial culture in the organization, but he also acknowledged the necessity of becoming an effective

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politician within the company. According to Poza, the interpreneur can transform the family business into a professional organization without losing its familiness.

Table 3. Creating an Interpreneur Culture.

	Requirements	Interventions
Strategy	Knowledge of product and manufacturing process technology	Specialization
	Knowledge of market	Diversification
	Overcoming absence of growth vision	Entrepreneurial approximations
Organization	Role differentiation and separation between family and business and between owners and managers	Task and business teams
	Focused structures	Reward systems
	Communication and problem solving	
	Overcoming distance from Customers and employees	
Finance	Creating an information-rich decision-making environment	Information systems
	Funding of new ventures	Family venture capital company
	Overcoming obsession with data and the "nervous money" syndrome	
Family structures	Equity structures that support "focused" organization structure and a distinction between active and inactive owners	Ownership equity
	Commitment and sense of ownership by nonfamily employees	Human resource policies and practices
	Overcoming inappropriate roles and boundaries between founder, family, and business	
	Overcoming perception of high social risk	

Source: Poza (1988, p. 349).

CASES OF INTERPRENEURIAL SUCCESSION

Working from Poza's model for creating a culture supportive of interpreneurship, a questionnaire was designed to capture business and personal experiences associated with stage-setting activities. Procedures outlined by Hair, Babin, Money and Samouel, (2003) were followed in designing the questionnaire.

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To test the applicability and comprehensiveness of Poza's model, structured, in-depth interviews were conducted with five second-generation chief executive officers, who, following their succession transitions, led their firms in an entrepreneurial activity as defined by Ellis and Taylor (1987) and Morris, Kuratko and Covin (2008). The five CEOs were selected by a judgment or purposive sampling procedure, a non-probability technique applicable to studies in which sample members are chosen for a particular purpose (Hair, et al., 2003). Specifically, this study required respondents who qualified as successors to family business founders, whose companies had passed through events that met criteria for being entrepreneurial, and were companies that were measurably larger than when the founder was CEO. Measures for growth were sales, profits and assets.

Interviews were conducted by a doctoral student trained and supervised by the author. Each interview lasted approximately two hours. Information resulting from in-depth interviews was evaluated to determine the links between stage setting, barrier management, interventions and outcomes.

Brief descriptions of each firm are given below along with the nature of each transition and the company's match with the Ellis and Taylor (1987) and the Morris, Kuratko and Covin (2008) classification schemes.

<u>Company A</u>: Wholesale fuel distributor. The founder owned a chain of petrol stations. The chain passed to his wife upon his death. Following the widow's retirement, half of the stations were leased by the daughter of the founding couple. She leveraged the retail outlets into a wholesale distribution outlet. The CEO converted the family firm into an independent, but related, enterprise. She subsequently acquired part-ownership of two other less-related ventures. Applying the Ellis and Taylor framework, she initiated a business entrepreneurial venture, then extended into a corporate venture. Drawing from Morris, Kuratko and Covin, the CEO began in the champion and the mainstream category, then followed with acquisitions.

<u>Company B</u>: General contractor. The father launched and grew a residential construction company. Upon his retirement, management and ownership were passed along to the oldest son. The son moved to create four new divisions within the firm: commercial construction, joint ventures, rental property, and investment properties. The new divisions were structured to be semi-autonomous from the original company, and were headed both by siblings of the CEO and by non-family managers. This case fell into the new venture division or group classification (Morris, Kuratko and Covin) and business entrepreneurial venture (Ellis and Taylor).

<u>Company C</u>: Music and film sales and rental company. A husband and wife opened a record store and expanded it to the largest retail chain of its kind in their region of the country. As they approached retirement, they transferred executive authority and eventually ownership to their daughters. The CEO continued the store expansion, combining the growth with a change-over in product lines as technology impacted the industry. This case was an example of product/market extension and a hybrid approach of new product introduction and division expansion.

<u>Company D</u>: Manufacturer of storage systems. Upon the untimely and unexpected death of the founder, the widow became the sole owner. When she died, the business

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was inherited by her daughter. The daughter expanded the company from a regional to a national and then international market. She also added product lines and restructured internal operations. Similar to Company C, this is a case of a hybrid form and a new market expansion.

Company E: Manufacturer of flexible packaging materials. This was another transition precipitated by an unexpected death of the founder. In this case, the son first continued two major projects that had been initiated by his father. The son then turned his sights toward implementing manufacturing efficiencies, streamlining product lines and market segments, and improving quality and service. Under his leadership, the firm achieved record-breaking sales. This case fits Ellis and Taylor's efficiency venture type, and the champions and the mainstream category of Morris, Kuratko and Covin's manifestations.

IMPLICATIONS FOR POZA'S MODEL AND BEYOND

Poza's culture framework was designed as a strategy for venture owners to plan and organize for the succeeding generation to assume entrepreneurial orientations as the succeeding leaders of their firms. Five CEOs who qualified as entrepreneurial successors were interviewed to determine how well Poza's model described actual interpreneurial cases. Interview responses were analyzed using the lenses of the four model components for setting the stage for interpreneurship.

Strategic Exploration

None of the five companies was characterized by an absence of a growth vision on the part of the founder. Although each successor built his/her business to new heights, all interviewees described their respective parents as visionary with growth orientations. Only the CEOs of companies C and E reported actions by their fathers that could be labeled as strategic planning, but all five engaged in strategic redirection of their firms.

The founder of Company C brought all four of his children into the business at various times, but only the youngest daughter remained from the moment she joined the firm. Her older sister left for a time, but was welcomed back to the company at a later date. The founder assigned the daughters various responsibilities, and determined the time and method of transition. He worked closely with the daughters to ensure the continuity of his growth strategy. Acting as a top management team, the three family members decided that the firm had to grow rapidly in order to compete effectively with national chains that were entering their market. To fund the growth, the owners took the company public. Their chain continued to specialize as a retailer, but the daughters, with the advice and support of their father, redefined the company from being a record store business to becoming an "entertainment business."

After years of observing his father's strategic planning activities and results, the CEO of Company E continued the practice. The founder had laid out a plan for the son to rotate through various management assignments, gaining specialized experience. The son was forced early into the top leadership role of the firm, however, when his father died.

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Despite the lack of founder strategic planning in the other three cases, all three, as well as Companies C and E, achieved higher profit levels following the ascension of the interpreneurs. It is consistent with the family business literature that the founders had not prepared formal transition plans prior to their deaths, something that occurred in three of the five cases. None of the CEOs interviewed described extensive experience in strategic exploration prior to becoming the top executives, except in the case of Company C. But all exhibited the skill after having moved into the top position, suggesting that other causal factors may have been at work.

Organizational Change and Development

Poza observed that, "Changes in strategy are often accompanied by changes in structure and vice versa" (1988, p. 356). Changes in the organizations in each case studied were more overt following the transition rather than in preparation for or during the transition. Typical changes involved the formalization of organizational policies, leading to greater role specification and differentiation. This was most noticeable in Companies B and E. In both cases, the sons had earned MBAs from the Harvard Business School and returned to their respective firms with orientations toward policy formulation and implementation.

There was no indication given in any of the interviews that the companies faced the barrier of distance from customers, employees, operations, and competition either prior to or following the transitions. Nor were any entrepreneurial approximations reported by the interviewees regarding their pre-transition experiences in the companies, although there were examples of task and business team participation. Family harmony was not identified as a problem before or after the succession occurred in any way that could be construed as unusual.

Financial Restructuring

Poza argued that, "Financial reorganization is perhaps the approach most often used to set the stage for new ventures in the family business" (1988, pp. 356-357). Although only one venture founder initiated financial restructuring preparatory to the transition, four of the firms adopted various forms of restructuring in order to implement the entrepreneurial strategies of the interpreneurs.

The founder of Company C began the process that led to an initial public offering for his retail chain before transferring management authority to his daughters. Four CEOs described various forms of financial restructuring during or subsequent to the leadership transition. The CEO of Company A used the productive assets of her parents' firm to launch her own venture. In Company B, working from his Harvard class notes, the son wrote a change of ownership agreement that allowed him to purchase controlling interest two years after he was named president of the firm. The founder of Company C transferred stock to his daughters as part of a larger estate settlement plan. Subsequent to the transition the father and daughters collaborated on the completion of the IPO. Company E CEO copied a pattern established by his father and financed his expansions through increased debt.

None of the interviews uncovered any examples of nervous money or short-term focus as barriers to entrepreneurial development.

Family System Change

Although Poza's barriers to family system change were not found to be present in these five cases, statements were made by the CEOs that reinforced his intervention recommendations. In all cases, new equity structures were developed to ease the transfers of ownership. Some CEOs reported stress occurring in sibling relationships (The CEO of Company C was an exception, being an only child.), but each perceived himself or herself as the obvious and legitimate heir-apparent in the business. There were no reports of irreparable damage to family relationships.

Most of the CEOs implemented or continued human resource policies and practices. These sometimes appeared to go hand-in-hand with the growth of the respective ventures. The CEOs of Companies A, C, D, and E specifically expressed concern over the treatment of their employees and the values they wanted reflected within their organizations.

Common characteristics were observed among the five cases analyzed in terms of developing interpreneurs:

1. Commitment from the senior generation.
2. A flexible organization structure.
3. Autonomy for the successor.
4. Evidence of competent and talented successors.
5. Incentives and rewards.
6. Appropriate controls.

From childhood through entry into the family firms, the interpreneurs in the case studies were prepared for leadership roles through actions of the senior generation. This is not the first study to suggest that early childhood experiences add to the preparation for family business leadership (c.f. Longenecker and Schoen, 1978). Barach et al. (1988) observed that performing low-level tasks while still in childhood or adolescence facilitated learning through trial and error, when errors were less costly and not unexpected by non-family employees of the firm.

These cases also provide evidence in support of normative recommendations in the literature for life-cycle solutions to leadership and organizational development. For example, Peisner and Wooten (1983) proposed three actions to resolve life-cycle conflicts. First, they encouraged senior managers to give the next generation experience through project rather than functional management. The objective is to break the successors loose from narrow perspectives of the company. Second, they favored forthright recognition of the emotional aspect of family members working together, followed by applying rational processes to daily relationships. Third, they called for participation in strategic planning, including determining the implications of the strategies for family involvement in the business.

Specifically, the business founders willingly shared their knowledge of their enterprises, shared decision making authority, and shared power in the management of the firms. Trevinyo-Rodríguez and Tápies (2006) explained that knowledge sharing is different in family businesses from non-family businesses. Tacit knowledge may be

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passed from generation to generation via traditions and values. Specific advantages held by family firms result from sharing goals and investing trust in one another.

In the process of sharing, the successors did not abuse the privileges they were given, instead demonstrating attitudes that valued the contributions of their seniors. On the other side of the equation, the senior generation did not fall prey to life cycle conflicts. They recognized that their heirs had different goals and approaches to venture management than they did.

CONCLUSIONS

The small sample size prohibits any generalizations to larger populations. Nevertheless, the responses from these five CEOs make it possible to obtain and evaluate information on the variables that Poza proposed in his normative model. Data availability and applicability suggest that the framework warrants further research. Preliminary indications raise questions regarding the explanatory power of the model. Its application to practical use needs to be studied.

Minimal or no transition planning was reported in four of the five cases. This casts doubt on Poza's contention that interpreneurship is unlikely to occur without careful preparation. Alternatively, the preparation may be far more subtle than the framework suggests. The owner of Company B was emphatic that his entrepreneurial success could be traced to his upbringing, particularly to early responsibilities that his parents imposed on him. This sentiment was echoed by others. The CEO of Company C highlighted observing her father's behavior as an entrepreneur throughout her childhood and the effect that had on her own ambitions. Poza's model may require refinement to capture the various influences family have on interpreneurship at a much earlier stage of life.

A few additional, tentative conclusions were derived from the five interviews:

- Although the responses of the CEOs indicated a lack of transition planning by the founding generation, none had developed a plan for third generation succession.
- The second generation owners managed to grow their ventures in both revenue and profitability despite evidencing some of Pratt and Davis' inhibitory factors: valuing tradition, exhibiting secretive behavior, and seeking to maintain control.
- The current owners described themselves as applying organizational skills more often associated with effective administrative management than with intrepreneurial behavior, yet their outcomes fit the criteria for corporate entrepreneurship.

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NON-FAMILY EXECUTIVES IN FAMILY BUSINESSES - A LITERATURE REVIEW

Sabine B. Klein[2]
European Family Business Center
European Business School
Rheingau Palais
Söhnleinstrasse 8 D
65201 Wiesbaden
Germany
Tel. +49 (0) 611 36018 700
Fax. +49 (0) 611 36018 702
sabine.klein@ebs.edu

Franz-Albert Bell[3]
f.a.bell@web.de

Abstract

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

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

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

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INTRODUCTION

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

Definition and classification

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

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

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

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

The importance of non-family executives in family businesses

Although authors from various countries state both the importance and the lack of research on non-family executives (Chua et al., 2003; Astrachan et al., 2002; Poza et al., 1997), not much empirical data are available concerning the number and position of non-family executives. Klein (2000) used a random sample (n=1158) of all German companies with a turnover of more than one million € and found high involvement of non-family executives. 44% of all management boards are completely controlled by family members, 42% have a mixed management team and 14% have a pure non-family management (Klein, 2000, p. 170).[4] Although it is clear that many non-family executives are present in family firms, there is no significant research on the management positions or functions they serve. We do know from expert interviews, however, that in many cases the CFO position is probably the first experience with non-family executives for family business owners (Jeuschede, 1998).

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

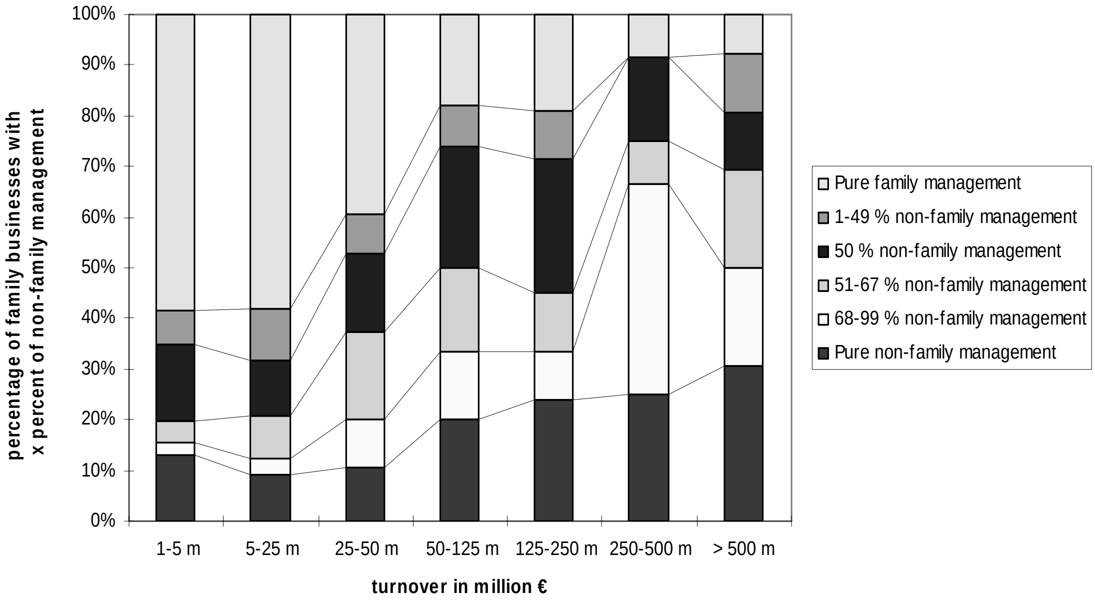

Figure 1. Non-family management in German family businesses according to turnover classes (Source: Klein, 2000, p. 171).

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

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

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LITERATURE REVIEW

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

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

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

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

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

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

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

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

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

Finding the right person/the right company

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

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recruiting process: (1) individual talent with organizational talent requirements and (2) individual needs with the need fulfilling characteristics of the job (Wanous 1972). In the human resource management context these "match ups" are known as the 'person-job fit' and 'person-organization fit' (Kristof-Brown et al., 2005, p. 284).

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

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

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

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

Mutual expectations in the recruiting process, the process itself, and contractual issues as compensation are mentioned in the literature. In addition to similar recruiting processes in all companies, the selection process of a family business seems to include

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

Working together

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

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

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

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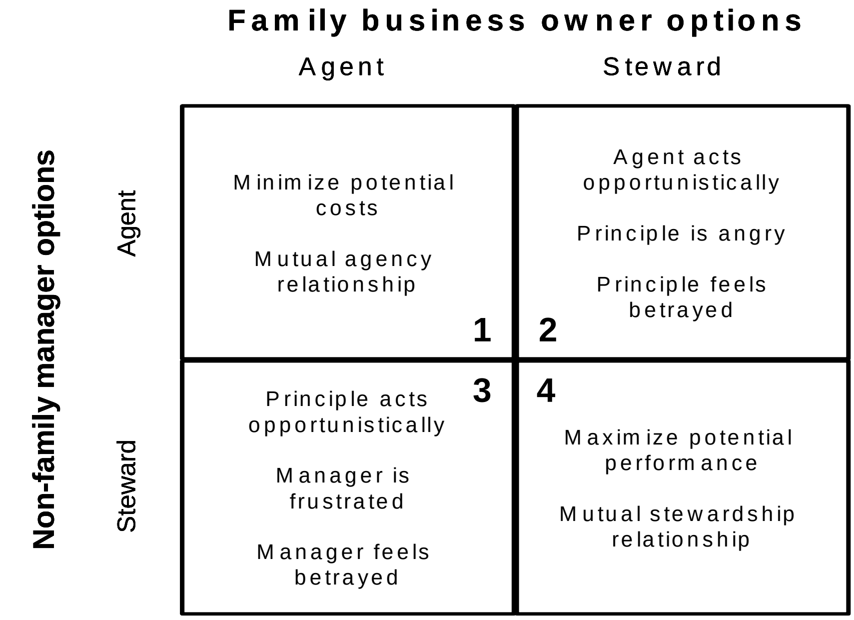

Figure 2: Options of behavior of a non-family executive and a family business owner (Source: Davis et al., 1997, p. 39; Klein, 2005, p. 194).

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

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

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

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

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

CONCLUSION

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

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

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

Future research

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

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

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

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

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

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

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

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

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* = Advisory literature

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WOMEN BEHIND THE SCENES IN FAMILY BUSINESSES

Kristin Cappuyns[5]
IESE Business School
Avenida Pearson, 21
+ 34 93 253 42 00
+ 34 93 253 43 43
cappuyns@iese.edu

Abstract

The success of family businesses is largely due to a circular relationship in which three intangible factors enhance each other: love for the family business, trust among different business factors, and freedom of behaviour for family members (Gallo et al., 2001). These values are the cornerstone on which family members base their commitment to the business. But how can family members of advanced generations, especially those who are not active in the business, become more committed to the success of the family business? And are there gender-specific roles, as the literature on this subject seems to indicate?

The research outlined in this document seeks to enlarge the current pool of knowledge, offering the results of a study involving 98 Spanish family businesses, in which a total of 200 non-active family members responded to a questionnaire about their relationship with the family business and their associated relatives.

The main results confirm the existing literature by revealing that women are expected to play certain roles such as managing the household and child-rearing. Even though these roles are not clearly defined, women perceive numerous obstacles when attempting to assume roles beyond the domestic sphere. Nevertheless, our results confirm that, regardless of the degree of women's direct participation in the family business, their strong commitment towards the business as well as their other qualities can permeate the family relationship to the point of affecting the business performance by influencing the entrepreneur's motivation and business-related decisions. Through her passion for the family she provides the business with a powerful asset: the strong "family glue".

Key words: family business; family ownership; male and female agents of commitment.

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[5] Kristin Cappuyns is Research Associate of the Family Business Chair at IESE Business School, Barcelona, Spain and Ph.D. candidate at the University Autonoma de Barcelona, (UAB), Bellaterra, Spain

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INTRODUCTION

Given their position in the spotlight, family businesses are facing the challenge of becoming part of the new economic revolution. In order to retain the peculiar idiosyncrasies involved in being a family firm they seek to blend highly innovative behaviour based on family traditions. (Ward, 1999). Several years ago, researchers already pointed out that the fundamental difference between family and non-family businesses lies in the extraordinary level of unity and commitment which family members pour into their business. Successful family businesses are those that improve their business results through judicious use of this distinctive strength.

Hence, a family business is built upon a community of people that includes owners, managers, family employees and people hired from outside. Satisfying all of them is not an easy task, but as the statistics have shown, it is a necessary one.6 Given the complexity of roles and interests, maintaining unity depends on the level of commitment that family members are able to share between the business on the one hand and the family members on the other.

How can we expect family members to be motivated to do so? If we look particularly at non-active family members, it is important to note that their commitment level not only depends on economic links but also on emotional links and the cultural environment, which results from both education and value transmission over generations.

The research outlined in this document therefore seeks to extend the present pool of knowledge, as described in the preceding paragraphs, by offering a better understanding of how family members evaluate their level of commitment towards the family business to which they belong. Some of the preliminary results of this study[7] are particularly interesting as they show the strong erosion in commitment observed over generations. The attitudes range from a fairly strong willingness to invest both effort and idealism in business ideas with the expectation of rewards (first and second generations), to a belief that the business owes rewards to family members without them owing anything to the business (second and third generations), and finally to a questioning of whether the business is still a family business (third generation and beyond).

These results clearly underline the fact that commitment cannot be taken for granted or expected to result naturally from pure self-sacrifice. It is therefore important to look for motivators and rewards that will help enhance the commitment of all family members towards the business. As such, the previous parts of this study highlighted different reward systems, as well as possible measures to increase the levels of “effort”, “loyalty” and “idealism”. Nevertheless, due to the fact that the results have indicated important differences in the level of commitment when comparing men and women, this study provides a better understanding of the different gender specific roles in family businesses and how they are distributed according to gender.

The scant literature on the role of women in family businesses indicates that women possess a sense of intuition and sensibility which can be particularly useful in fostering commitment

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6 Statistics show that more than 60% of Family Businesses disappear, not because of bad management or governance, but because of family conflicts. (Dyer, 1998)

[7] Gallo, M. A. and Cappuyns, K. (2004) Effort, Loyalty and Idealism. Research Paper, Nº 571 and Gallo, M. A. and Cappuyns, K. (2004) Why family members who do not work in the family business: How to enhance their “unity” and “commitment”. Research Paper Nº570.

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among family members. But as long as family businesses perpetuate a strong gender-specific role definition women are excluded from almost all roles.

Hence literature on family businesses suggests that family members become committed to the business through ownership and the possibility of participating in family councils or General Shareholder Assemblies, as well as through a strong feeling of responsibility (Carlock and Ward, 2001). Nevertheless, the results of the current study seem to indicate the opposite: namely, that even without having access to ownership, women still maintain a strong level of commitment.

In fact, in spite of the many obstacles that women encounter when making great efforts to encourage commitment among family members, they seem to be much more active behind the scenes than most men are willing to recognise. Through the analysis of the results we expect to highlight the very positive influence of women by providing financial resources to their husbands, by creating opportunities for other family members to express their opinion, and by educating their children to show respect for each other. With her passion for the family she provides the business with a powerful asset: the strong family glue.

This article starts with a review of the literature, followed by a presentation of the gender-specific results with respect to the levels of commitment to the family business. We then give a short description of the data collection process and the sample used, the research methodology, the main results and some conclusions, as well as proposed paths for further research.

LITERATURE REVIEW

Over recent years, several authors have attempted to identify what lies behind competitive businesses that have been able to endure over time, whether these businesses have been specifically family businesses (Gallo and Amat, 2003; Koiranen, 2002) or otherwise (Collins and Porras, 1994). If one wants to maintain both competitiveness and good family relations within a family business, it is necessary to acknowledge that from the second generation onwards the number of family shareholders will expand and that these people will increasingly play non-business roles (Carlock and Ward, 2001; Gallo, M. A., Corbetta, G., Dyer, G. , Tomaselli, S., Montemerlo, D. & Cappuyns, K.; 2001).

As the business passes from generation to generation, its management and ownership will usually evolve, as does the family itself, and as a result of this growth, members from different generations will be obliged to coexist. In a recent international study of a group of 16 large family businesses in Spain, Italy and the United States that have survived through a second generation or beyond, Gallo et al. (2001) found that the successful businesses in their sample, as opposed to those that were unsuccessful, were notable for both their great family unity and for the *high level of commitment* shown to the company by the different family members. This study also emphasised the fundamental characteristics of both unity and commitment. These include the confidence that the family members have in the capacity and performance of those who have the greatest influence on the company's activities, and the love that everyone in the family must develop for the family enterprise (Gallo, et al. 2001).

Furthermore, other researchers have developed concepts such as "familiness," (Habbershon & Williams 2000) which includes a range of qualities not yet clearly defined, but generally conveys the idea that the family is harmoniously intertwined and involved in the implementation of certain group objectives. Finally, researchers have also defined the

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characteristic of "belongingness" (Karlsson Stider; 2001), a strong sense of belonging to the family. This results from knowledge of past actions that have been carried out by other family members, sharing certain values which have evolved over time, and the transformations of homes and other physical places into symbols for people who share the same bloodline.

To some extent the amount of family participation is a tangible demonstration of the family's commitment to the business, but it cannot be limited to a merely financial involvement. Instead, as some research suggests (Carlock and Ward, 2001) if one wants to preserve commitment, it is essential to maintain ownership and the intention to participate as a responsible owner. Since this responsibility is not automatically acquired with ownership, family members must be taught from the very early stages to become owners who are committed to the long-term continuity of the family business (Gallo et al., 2006).

The emergence of younger generations and in-laws represents valuable potential resources for the family firm, but since the level of unity among family members can be affected, there is an urgent need to clarify all the family members' individual, family and management expectations. This clarification helps participants in the family business system develop a shared understanding of both goals and potential areas of conflict. Therefore, families strive for a commitment or "shared dream" that includes not only financial dimensions but also agreement on moral, emotional and family-related facets that will provide orientation for the strategic and competitive vision in the middle and long-term life of the company (Lansberg, 1999).

In addition, one should not forget that the family provides an ideal learning environment for assimilating these basic roots of commitment, given that during the course of their lives people generally spend more time in a family environment than anywhere else. The family context also provides certain exceptional conditions, such as loving feedback from other family members, which make it possible to build family relationships encouraged by a search for the good in each individual (Cappuyns, 2006 unpublished).

When dealing with the tasks of the family as an education environment, another issue immediately arises. Resulting from a very strong adherence to the traditional division of labour within the family, a family business may allocate domestic responsibilities to the wife and business responsibilities to the husband (Frishkoff and Brown, 1993; Lyman, Salganicoff, and Hollander 1985; Gillis-Donovan and Moynihan-Brandt, 1990; Moen, 1992). This situation persists even longer in family businesses, where neither men nor women are willing to upset this deeply entrenched balance of work and family roles, which is emotionally linked with their traditional male and female identities (Berk and Shih, 1980; Freudenberger, Freedheim, and Kurtz, 1989; Janeway, 1981).

Nevertheless, the limited literature about women in the family business field indicates that wives' contributions to family businesses take several forms: from managing the household, working in the business, being employed by others, to working in the business and holding outside employment at the same time (Rowe and Hong, p. 3). At the present time, there are four groups of publications that can be clearly identified as dealing with the role of women in and outside the family business: the gender specific roles in family businesses, the lack of job recognition resulting in a low remuneration for women, the barriers against women's collaboration, and, last but not least, the results of women working in family businesses.

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In this particular study I will mention only the publications[8] that make reference to different roles attributed to women who are not active in the family business, with a special focus on how women from outside the business might have a privileged position to influence the commitment level of other family members. As Pramodita Sharma (2004) in a recent publication states, the huge majority of women in family firms continue to remain in the background, frequently occupying the role of a household manager and taking on the primary responsibility for the household and child-rearing tasks (Cole, 1997; Fitzgerald and Muske, 2002).

Most of these roles involve undervalued and unpaid housework, which is unformulated, and unexpressed, but taken for granted. This is true particularly of the gender-specific tasks, such as rearing and educating children, preparing meals, house-cleaning and washing clothes, taking care of the house, instilling values, caring for dependent children and sick or elderly family members, assisting in a spouse's work, managing family finances, etc. (Lyman, Salganicoff & Hollander, 1985 and Voydanoff, 1990).

But apparently a particular bias exists between the roles that women are "expected" to play and those that they "agree" to play (Cole, 1997). This is without doubt a reflection of today's world of family ambition and increasing gender neutrality, which has led to a new era in which being gender-specific is no longer the rule. However, this literature highlights an encouraging vision by showing the influence of spouses and wives in fostering commitment, with a few researchers even providing empirical results to underline this new concept.

One of the main challenges of the family business is its desire to embody, preserve, and develop some basic family values within its culture that give rise to characteristic strengths. Therefore, the wife's knowledge of how to ensure the conservation of these values and her profound desire to support her husband and family in making the correct decisions is much more important than her formal participation. There is no need to participate formally in the family business since these tasks can also be accomplished with the husband in informal meetings (Gallo, 1990, p. 19).

Roles such as family peace-keeper, or the "glue" that holds the different relationships together, appear in varying forms within the family firm, but are often undervalued. A mother educates her children to respect each other, to feel passion for the family and to avoid dominating over others, appreciating and respecting their siblings' talents and needs. Such a mother has strongly contributed to the family business' multigenerational survival even though she may not be active in the business (McClure, 2002). It is through these three different key elements that the mother contributes to the conservation of the family glue, and this is what maintains family relationships in good as well as in bad times.

Some literature goes even further, stating that strong spousal commitment can be a source of competitive advantage and facilitate the success of a family business (Harris, Martinez and Ward, 1994). It is likely to be associated with a willingness to deploy family-based resources to support the business. Spousal commitment may be especially important during the initial

[8] I will not extend the other parts, nor the literature related to women working in the family business, as this goes beyond the subject of this paper. It is definitely an interesting and very much recommended issue for future research, especially the experiences and results of the first female entrepreneurs, which seem to implement a very different but at the same time efficient management style.

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years of a new venture when financial challenges and chances of failure are the greatest. Spouses can provide active support in the form of personal or temporal resources (including financial and human capital). Alternatively, spouses can provide passive emotional support that alleviates financial stresses (Van Auke and Werbel, 2006).

Some women identify other roles: “I am the spiritual captain, the nurturer of love, respect and honor. I also bring the ability to see things in context.” In another testimonial a spouse said: “I bring creativity, and some kind of glue. I also try to mention how important it is to focus on a distant spot, rather than focusing on pieces” (Poza & Messer, 2001).

These roles afford women the opportunity to take on certain family responsibilities, such as the creation of a family council, writing the family’s history, hosting weekly or monthly family meetings, being the contact person for consultants, planning family vacations or organising multigenerational celebrations (Poza and Messer, 2001, p. 30).

Unfortunately, as most of these strengths are not highly visible, the role of women is still highly undervalued (Folker and Sorenson, 2002, p. 1). As a consequence, women encounter barriers. Not only are they kept away from the business but they also have no access to ownership, which results in a positive discrimination towards men. There has been clear discrimination from the male side to hold and retain positions of power in the business, due to the fact that they experience feelings of psychological ownership because they are in some way associated and familiarised with the business. As such they begin to think that the family business is theirs, when they really own only a share in its capital or, in some cases, nothing at all. (Garcia Alvarez, 2003).

Women seem to have endured many difficulties in family businesses, but finally some new streams of upcoming literature seeks to underline the strengths which women contribute to the family business. Hence, this new stream of research also insinuates that women who are not active in the family business are honoured for their noteworthy insights and inputs. Therefore, “common wisdom” now suggests inclusion rather than exclusion of spouses at family ownership meetings (Aronoff, 1998).

The findings of this research project are meant to present results that corroborate what most know but don’t want to acknowledge: that most family businesses are built on the support and sacrifice of mothers, wives, grandmothers, sisters, and daughters (Astrachan and Bowen, 1999).

THE STUDY QUESTIONNAIRE

Levels of commitment in the family business depend on a wide range of variables which can mainly be divided into three main groups: some are qualities inherent in the person, others relate to the family business or the family itself, while still others are based on value judgments that the person makes in certain situations or actions taken by the company or the family. As we know, opinions on family businesses are usually related to the characteristics of the person offering them (Poza, Alfred, & Maheshwari, 1997).

For this reason, the research is based on a closed two-part questionnaire, where the first part is based on information relating to personal data about the respondent, his or her knowledge about the business performance, and his or her level of integration in the family. The second part of the questionnaire defines 20 variables aimed at acquiring an understanding of the

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relationship of the person with the family business which could then be cross-referenced to the answers provided in the 200 questionnaires. This last part was measured in a five-dimensional Likert scale, with a maximum of five points and a minimum of 0 points. The commitment of the respondent is determined by measuring levels of values such as "effort," "loyalty," and "idealism" parting from definitions which are commonly accepted by traditional philosophy and contained in a specific dictionary (Honderich, T. 1995).9

The very preparation of the questionnaire was quite an intensive process, and it was tested and revised several times until its content was easy to understand by the family members who do not work within the business, which in turn resulted in very few questionnaires being declared invalid.

THE SAMPLE

The data collection process proceeded very slowly as we encountered a huge number of obstacles in getting the questionnaires into the hands of non-active family members. The questionnaires were sent to family members who were active in the business with a request to pass these on to four non active family members, so as to obtain different opinions about the same family business.

But on several occasions the active males flatly refused to distribute the questionnaires to the non active family women. Most of the companies that were experiencing economic difficulties or undergoing a management crisis such as strikes, etc., also refused to collaborate. Families undergoing a crisis did not answer either. These comments suggest a certain bias in the sample, which consists of a majority of people whose attitude towards their family business is more favourable than the average results would show.

The 200 valid replies reflected 98 family businesses and families. In 79 of the companies (67%) only one person received the questionnaire; in 14 of the companies (12%) two people received the questionnaire; in 10 companies (8%) three people received it; in 14 companies (11%) four people received it. In one company five people received it and in another company six people received it. Of the total 200 questionnaires collected, 107 were completed by men and 93 by women, with 67% being blood relations and 33% family members by marriage. None of these people were working in the family business at the time they completed the survey.

The range of data on the companies in the sample group suggests that the respondents came from a particular group of family businesses, as compared with most family businesses in the country, with 43% of the sample representing family businesses with a turnover of over 30 million Euros[10]. This perception is based on the size of the firm and its position within its sector, where 70% belong to the top 10 of their respective industry.

However, the special interest of the sample consists in the very strong presence of women who answered the questionnaire, as they represent 46.5% of the sample. Of these women, 75% are from the founder family, 67% of them have at least an undergraduate degree (in contrast to 46% of the males), 35% of them are shareholders (in contrast to 42% of the males), with the

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9 "Effort": Energetic application of understanding and willingness to reach an aim. Enthusiasm and courage. "Loyalty": Fidelity to the fulfillment of promises. Reliability and precision. "Idealism": Desire rooted in hope and confidence.

[10] These are Euros in 2003.

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average percentage of shares owned by women (23%) being much higher than the shares owned by men (15%).

These are only some of the main differences that have caught our attention. These and other gender differences will be discussed in greater detail in the results section. More importantly, there are some interesting differences in the levels of commitment between males and females, a fact which might open up new paths of further research about the scarcely known role of women in family business and their special sensibility for keeping the family together.

METHODOLOGY

Even though quantitative data had to be obtained in order to meet the objectives of this research, the qualitative processing of these data during the analysis procedures was vital in order to provide meaning to the results. Quantitative data were obtained by distributing questionnaires among family members who do not work in the business.

The data analysis process was carried out in three very different stages. In the first stage, the one-way ANOVA was used to test for differences among more than three independent groups. The key statistic in ANOVA is the F-test of difference of group means, testing if the means of the groups formed by values of the independent variable (or combinations of values for multiple independent variables) are different enough not to have occurred by chance. If the group means do not differ significantly then it is inferred that the independent variable(s) did not have an effect on the dependent variable. If the F test shows that overall the independent variable(s) is (are) related to the dependent variable, then *multiple comparison tests* of significance are used to explore just which values of the independent(s) have the most to do with the relationship. Main effects are the unique effects of the categorical independent variables. If the probability of F is less than .05 for any independent, it is concluded that that variable does have an effect on the dependent.

In the part below, the results only reflect the statistically significant data, or those with a F less than 0.5. In the second stage, a multivariate analysis carried out to synthesize the information led to the identification of the following non-correlated factors that explain more than 70% of the variance in each of the five groups of questions in the questionnaire.

In the third and final stage a cluster analysis identified four groups of persons with similar opinions about behaviour within the same group and with very different characteristics in relation to the first part of the questionnaire: personal data, knowledge of the business and relationship with the family. Consequently, the level of commitment was significantly different in the four groups with a more or less important degree of erosion in the level commitment over generations. This will be further illustrated in the results section.

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MAIN RESULTS

Firstly, the fact that women represent such a high percentage of the sample is at least an indication that the literature might be right in claiming that women still encounter major obstacles to stop them entering their family businesses. When first viewing the data there seems to be no direct indicators as to why they should be excluded; they have a high education level, an average age of 39, 75% are blood relatives, and 60% of them evaluate their family business as successful. Therefore, the main reasons have to be searched elsewhere, not referring to the lack of personal interest or capabilities, but rather on external circumstances.

It appears that the gender-split roles found in family business, which is the major barrier against women entering family business, was possibly also relevant to this sample. This barrier represents the struggle between the expected family role versus the expected business role (Dumas, 1990; Hollander and Bukowitz, 1990; Freudenberger, Freedheim, and Kurtz, 1989).

Apart from the specific gender role differences in family business, the literature also suggests other very specific barriers that have hampered women's entrance into the business. For instance, the decision for a woman to enter the family business seems to depend on external circumstances i.e. the good will of other people. As a consequence the role of the wife in the family business does not depend solely on her capabilities, motivations and personal circumstances. There seems to be a large number of external factors that in certain ways influence the final decision. These factors include the role of the husband in the family business, the kind of family business, ownership held by one or both members, and some characteristics of the family business the husband is working for, especially, its size and type of activity, its generational level, and the type of commitment and relationship that is established between the family and the business. Also, there is the situation of the husband with respect to the amount of company ownership he has (Gallo, 1990, p.17-18).

The first part of the results represent those data of the analysis where we found statistically significant gender differences in the first part of the questionnaire and which are dived into three parts: data related to the person, his/ her level of knowledge about the family business as well as the structure and participation within the family.[11] The second part of the results analyse the statistical differences with respect to the level of commitment of both gender groups as well as illustrating the cluster analysis, were one cluster group consisting of a female majority is contrasted with the three other groups.

Family ownership

Regardless of the spouse's degree of direct participation in the business, spousal attributes, especially spousal commitment, permeate family relationships and can affect the business' financial performance by influencing the entrepreneur's attitudes, resources and motivation towards the business (Poza & Messer, 2001). Moreover this is an automatic consequence where, given the economic ties that result from marriage, a spouse becomes a critical stakeholder in the family business.

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[11] The one-way ANOVA was used to test for differences among more than three independent groups. The significance level used in hypothesis testing is either the 0.05 level (sometimes called the 5% level) or the 0.01 level (1% level). It

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Only 16% of all the women in our sample are shareholders, compared with 22% of males. Women own, on average, more shares (23%) than men (15%). This is in line with data presented by Dumas (Dumas, 1998), who found that women do not have substantial ownership. However, this quantitative data sheds little light on the reason(s) for these differences. But the literature can help us discover these. There are some important differences that have an influence on whether these women will be shareholders or not.

Company management is generally divided into active and passive shareholders. Active shareholders are understood to be those who actually take part in the company's management, while passive shareholders are those who do not. However, owners who are not part of the management team impose limits in a more neutral way: there is a differentiation between shareholders who are "on the outside" and those who are "on the inside". Being on the inside means working in the company or sitting on its Board of Directors.

This distinction is important, because it establishes practical differences that relate to the levels of information handled and powers of influence enjoyed, and shareholders are aware that in spite of being on the outside, they can act in either a positive or negative way and bring value to the company or otherwise (Ercilia Garcia Àlvarez, unpublished 2003).

Due to a large number of circumstances that relate to more than just a lack of education or interest, it seems that women are excluded from ownership. However the data offered here are not able to indicate the real underlying reasons for this.

Table 1. Personal data and business evaluation.

I-PERSONAL DATA	MEN	WOMEN
1. Are you a shareholder?	22%	1 6%
% of shares you own (average)	15%	23%
2. What is your relation with the family?		
blood relation	65%	75%
intermarried	35%	25%
3. How did you acquire the shares?		
Founder	17.1%	18.9%
Inheritance	51.4%	24.3%
Transfer	28.6%	37.8%
Sales	0.0%	13.5%
Other	2.9%	5.5%
II-BUSINESS EVALUATION		
1. How do you evaluate the position of the FB ? (1-5 scale)[12]	2.6	2.7
2. How do you evaluate the results of the Board of Directors? (1-5 scale)	2.61	2.31
3. Are you a board member?	16%	24%

[12] Within the scale 1= very low and 5 very high.

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Nevertheless, being a shareholder does not always guarantee being the owner of family business shares, as we have found in some results relating to non-active shareholders in Spanish family businesses. Family ownership can be controlled by each family business in its by-laws and this can sometimes lead to very strange maneuvers such as those explained below. In her study of non-active shareholders, Garcìa Àlvarez found evidence that a number of shareholders were actually only statistically shareholders by name, for tax purposes, for example, the transfer of shares on paper in life, with no real effect. Actual ownership is transferred, though beneficial ownership is retained. In other words, these people are at a legal level[13] listed as shareholders but in reality are no such thing. This "*status of shareholder without a role* "is occurring more and more frequently, since it can and has been used as a way of getting round fiscal regulations when managing businesses. The supposed "*shareholder without a role"* knows that he or she is in fact no such thing, and feels humiliated as a mere tool to be used for fiscal deductions (Garcìa Àlvarez, 2003).

At the same time, the position of shareholders without a role has considerable negative emotional implications, since shareholders who are on the outside must bear the stress suffered by shareholders who are on the inside while being denied the ability to act and the power to influence company decisions. This gives rise to a clear feeling of powerlessness (Garcìa Àlvarez, 2003). The very negative feelings that this can provoke, represents a trait of the group cohesiveness, as expectations are raised and then frustrated, because they are shareholders but at the same time they are not. (Davis & Herrera, 1998).

Knowledge about the family business

Apart from ownership, the knowledge about business is able to create strong bonds with the family business. The importance of knowledge is directly related to the unity and commitment of the family business, as one of the fundamental bases of unity lies in one's love or positive need for the business project, though it is extremely difficult to love something that is not known. To know, therefore, in both a perceptional and an abstract way, it is necessary to participate (Gallo et al. 2006).

We make a distinction between two different sources: (1) the information about the business that is distributed to non-active family members, and (2) the knowledge acquired from visiting, family conversations, etc. and (3) special attention is paid to the information gained from previous work experience.

(1) Women feel they receive less economic/financial information than men about the family business, as is clearly shown in the first part of the table. Nevertheless, the women in this sample had all been educated to an advanced level, and most of them were active in highly qualified positions in other companies. This implies that the lack of information is not due to the fear that the information will not be properly understood by these women. In addition, women have shown a strong interest in collaborating with efforts to keep the family business healthy as long as necessary, even though they might have felt outsiders rather than insiders, given the low level of information they received.

[13] In some owning families in Spain, the ownership of shares is transmitted in two separate parts to different people. One person is the material beneficiary of the dividends, and has the political power to vote, nevertheless a second person's name figures as being the owner in any legal documents.

Table 2. Information distributed by the business.[14]

III- INFORMATION RECEIVED FREQUENTLY	MEN	WOMEN
4.1 Economic information (% of each category that receives info)	65%	60%
4.2 Future plans (% of each category that receives info)	78%	70%
(1-5 scale of frequency) Average frequency	2,73	2,35
4.3 Magazine (% of each category that receives info)	34%	27%
(1-5 scale of frequency) Average frequency	1,05	0,78
4.4 New products (1-5 scale of frequency) Average frequency	1,63	1,24
4.5 Press information, TV, …(1-5 scale of frequency) Average frequency	1,14	0,93

Table 3. The main source of knowledge about the FB.[15]

IV- KNOWLEDGE ACQUIRED ABOUT THE FB	MEN	WOMEN
5.1 CA	27%	39%
Average degree of importance (1-5 scale of frequencies)	1.07	1.61
5.2 Work in the FB	29%	41%
Average degree of importance (1-5 scale of frequencies)	1.08	1.65
5.3 Read information	57%	53%
5.4 What parents discussed	64%	59%
5.5 Family meetings	79%	70%
5.6 Company visits	88%	76%
5.7 Informal conversations	81%	68%

Moreover it could also be the consequence of some other family members who have experienced a strong sense of psychological ownership. In some families, the members find themselves in a situation in which, due to the fact that they are in some way associated and familiarised with the business, they experience feelings of psychological ownership. As such they begin to think that the family business is theirs, when they really own only a share in its capital or, in some cases, nothing at all. Hence, those who are on the inside, whether owners or not, see “those on the outside” as being people for whom information has to be controlled and “rationed”.

In another study about the role of the spouse in family business, Gallo warns of the risk that if a spouse is not informed about the business, she may try to gain access to whatever information she can by whatever means that are at hand. The most probable result is that she would discover negative aspects about the business and her influence would produce dissent within both the family business and the family (Gallo, 1990). As regards the younger

[14] Only the statistically significant values are mentioned in the table.
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generations, they take a quite negative view of a lack of succinct information, as this may lead to disillusion when expectations are not fulfilled.

(2) As the results indicate, "Visiting the business" and "going to family meetings" are still the two most effective sources of knowledge about the family business, followed by informal conversations. Nevertheless, there are some slight differences for men who consider informal conversations a more important source of information than participating in family meetings.

An analysis of this data highlights the importance of the family's responsibility to organise visits and family meetings, in order to ensure that family members are well informed about both the business and the family. The strength of these meetings depends on the way they inform family members. As this is seen as the most effective medium, families can discuss how to improve it and adapt it to individual family needs.

Here it is interesting to highlight the difference, were 41% of women have responded in a positive way compared to 29% men, when asking about the source of knowledge derived from having worked in the past. To a certain extent, this might confirm that women are in some way invisibly active on both fronts: family and business.

(3) Even though the questionnaire was completed by "Women who had worked in the past", it was still very surprising to see that a significant percentage of women had worked, the average being 16 years. Among the replies there were several who had worked for close to 50 or even more than 50 years. This suggests that an important number of the women from our sample grew up with the business and worked in it as required, or as circumstances made it necessary.

The literature contains some evidence related to this subject, indicating that a wife's role in the business doesn't depend solely on her capabilities, motivations and personal circumstances; there seem to be a large number of external factors that to a certain extent influence this final decision (Gallo, 1990). Influential factors seem to be the role of the husband, the kind of FB, the share owned by each or both and the characteristics of the husband (Gallo, 1990). It can go further however, as Rowe and Hong (2000) found that a wife's employment in the business was significantly related to the size of the family business, the husband's self reported health status and the origin and type of the business enterprise in question (Rowe & Hong, 2000).

Even though, most of their work was not formally recognised and undervalued, they did feel that their contribution to the family business has been fruitful for a better understanding of the business.

On the other hand it is important to state that most women explain the main reason for leaving the business as being due to the development of other interests. Most of these women (daughters) had found opportunities on the labour market that seemed much more attractive to them, or they had developed a career in areas other than business.

Table 4. Work experience.

V- HAVE YOU EVER WORKED IN THE FB	MEN	WOMEN
YES/NO	17%	30%
Average number of years	7.6	16.5

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The results of this sample seem to corroborate that women with respect to property and knowledge receive significantly less information and are more often excluded from property than men. Nevertheless, it seems that women keep very strong emotional links towards the family business. There is some research literature that found that women, even outside the family business are more likely to be educated, active and impassioned owners, whose insights are encouraged and honoured (Poza & Messer, 2001). These activities can serve to strengthen the social and emotional bonds, thereby fostering family cohesion.

Personal commitment

One of the most important challenges for the family business is to embody, preserve and develop some basic family values within its culture that will give rise to characteristic strengths (Gallo, 1990).

Women have traditionally been seen as responsible for the family, performing duties such as education and child rearing, but they have also had a role as business advisor, and their position allowed them to provide a reminder of the balance between work and family. From their position behind the scenes, they have had a unique appreciation of interpersonal and developmental challenges. Furthermore, women are good at blending facts and feelings, especially on very delicate issues.

Some of these roles, such as the one of senior advisor and keeper of the family values, help to instill a sense of what the business stands for and what this means to the family. Not everyone knows this; it needs to be transmitted and conveyed, and a sense of the family's history and the proper history of the business needs to be nurtured. And the results in this study indicate that women have a stronger sensibility for three of the most important values: striving for excellence, labour ethics and austerity.

Table 5. The ELISA values.

VI-ELISA VALUES[16]	MEN	WOMEN
Excellence	4,45	4,56
Labor ethics	4,26	4,37
Austerity	3,78	3,79

Means of evaluation: 1 to on a Likert scale

But to what extent can this commitment be measured in the family? Commitment is generally defined as the willingness to expend personal, temporal and psychological resources on behalf of a particular domain (Shaffer, Harrison, Gilley & Luk, 2001).

When measuring family commitment, Gallo et al (2001) defined it as the degree of devotion and loyalty family members give to the survival and development of the family business. Successful family businesses are defined as a healthy relationship between family business and

[16] ELISA values: each initial stands for a specific value, Excellence, Labor ethics, Initiative, Simplicity (in life style) Austerity.

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the family system. This healthiness comprises unity and commitment. Unity in this context is twofold: It is the bond among family members and the relationship of the family members with the business. In other words, family members are living this unity when they come together on a regular basis to nurture and care for the business and are not only committed to avoiding conflicts relating to decisions of limited importance but are also willing to make the sacrifices required in relation to very difficult decisions.

Table 6. Commitment level.

VI-LEVEL OF COMMITMENT	MEN	WOMEN
Dedicating hours	1,53	1,84
Propose solutions	2,7	2,83
Telling the truth	3,25	3,32
Commitment	3,69	3,76

Means of evaluation: 1 to on a Likert scale

The results of the study (Gallo & Cappuyns, 2004) also revealed that there were four different behavioural groups in terms of the level of commitment to the family business. This deserves our attention as there was one highly significant group that contained a majority of women and differed from the other three. It was clear that these groups represented a sort of natural evolution between the families and the family business.

The first group consisting of people from the first and beginning of the second generation who are devoted to effort and enthusiasm but expect compensation (Group I) seems to evolve into a second group of people that believes that "the company should compensate them while they owe nothing to the company" (Group II). And finally, (Group III) the third group consists of advanced generations who seem to have serious doubts concerning whether the business is still family-owned or not. This strong erosion process is especially interesting knowing that the sample does not contain family businesses that are passing crisis situations, and are apparently strongly committed.

Nevertheless, there was a last group, that had the attitude of "while the company lasts, I should help it without any strong commitment", but without expecting anything back for the efforts made (Group IV). This last group was worthy of attention as it was the only one containing a majority of women, and only a small number of these (33%) were shareholders, of which 20% sat on the Board of Directors and were willing to invest their time and effort without expecting financial or other forms of compensation. Nevertheless, these results seem not to be isolated examples, as the literature shows others that follow along the same lines. It should also be stressed that women are generally very consistent in the values they rate most highly in the family business and the business family.

In the previous section dealing with values, we highlighted higher sensibility among women, particularly with regards to three values. This also has its consequences with respect to level of commitment, as women seem to be very consistent in their evaluation of how they perceive their degree of commitment towards the family business: They will do their best for the business (Excellence) and apply all the effort necessary (Labour ethics) to make the family business survive, without expecting any financial compensation (Austerity).

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Table 7. Comparing level of commitment males versus females.

Table 7 shows the classification of the 200 people in our sample into the four different types.

		- Able to make an effort +	
Willing to make an effort	+	C ignorant 15,3 % F 6,6 % M	A agents of effort 33,7 % F 22,6 % M
	-	D passive 41,3 % F 57,5 % M	B demoti-vated 9,7 % F 13,3 % M

		- Identify with the business +	
Are active	+	C opposed 2,17 % F 3,74 % M	A agents of loyalty 63,4 % F 60,74 % M
	-	D passive 4,35 % F 7,48 % M	B lazy 30,43 % F 28,04 % M

		- Tust the family business +	
Love the family business	+	C untrusting 3,26 % F 8,41 % M	A agents of idealism 80,43 % F 73,83 % M
	-	D passive 8,68 % F 11,21 % M	B economic interest 7,61 % F 6,54 % M

M = Males
F = Females

In cells A and D of this classification, we can see two clear differences. First, the difference between the high percentage of "agents of idealism" (80,43% F and 73,83% M%) and the very low percentage of "agents of effort" (33,7% F and 22,6% M). This difference may be partly due to the characteristics of the companies in our sample: compared to the universe of family businesses, they are exceptional, in size, rank, governance, and shareholder relations. Moreover, they are not suffering any crisis situation in the family, nor in the business. Even in the overall sample we have found that the family members are not very motivated towards making a considerable effort where needed. Given the fact that women are less informed and, kept at a certain distance from the business and are in many cases excluded from property, it captures our attention that they have a stronger representation than men in the group of "agents of effort". The merit of this consists in the fact that in spite of being excluded from information about the business and its property, at least a group of them is willing to implement time and energy to show their commitment towards the business.

The "agents of loyalty" are in an intermediate position (63,4% F and 60,74% M), below the "agents of idealism" mentioned above. This is partly because the B group in the Loyalty matrix ("Lazy," 30,43% F 28,04%M) is so much bigger than the B group in either of the other two matrices. Again, identifying with the company's advantages and values is one thing; actively speaking one's mind and offering solutions is quite another[17]. (Gallo & Cappuyns, 2004). The fact that such a high percentage of family members fall into the "lazy" category of the loyalty matrix should prompt the heads of family businesses to investigate the underlying reasons. Is it that only the loyalty of those who work in the business is appreciated? Is the loyalty of those who have chosen other professions not rewarded?

[17] This, too, is a truth embodied in popular wisdom. Consider the saying "practice what you preach."

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We should never forget, however, that being "idealistic" about a firm (loving the business, trusting in the organisation, etc.) is one thing that has a low cost. However, actually being capable of "making an effort" (being able to motivate other family members, contribute resources, take risks, etc.) is quite another (Gallo & Cappuyns, 2004). Business owning families should learn to trust its members, to come up with sound initiatives that cultivate a sense of belonging among its members. It is recommended that female members of the family be taken into consideration since, at least according to our sample, are professional, have high education levels and a passion for the business. It is likely, therefore, that they will make positive contributions without expecting anything in exchange.

Moreover, when trying to understand the underlying reason, the literature seems to extrapolate some of the characteristics by which women define themselves, such as: strong relationships with others, the ability to care, loving and sharing, maternal roles, perceived feelings of others, and relativity in moral judgments (Salganicoff, 1990).

Some of these characteristics can of course greatly contribute to the success of a family business, especially in the role of keeping the family united and committed to the business. This is not always an easy thing to do, especially when a crisis arises in the business, the family, or both.

But this and other related issues can be subjects for future research as we have more than reached the main objective of this study. We have illustrated with hard data that women definitely represent a strong interest and sensibility for keeping the family business united and its members committed.

LIMITATIONS

The results presented in this third part are not intended to establish solid statistical arguments with respect to the role played by women in the commitment process. Nevertheless, this quantitative study has highlighted some interesting statistical gender differences that are worth taking into consideration, as a starting point for setting up new research projects that might examine the role of women inside and outside the family business.

This particular research project is only intended to illustrate a brand new issue that is worth investigating further, but given the main proposal of this study, the data collection process does not allow us to reach any major conclusions regarding the role of non-active females in the family business. Although the studies published so far are based on small convenience samples and provide an indication of the varying types of roles that women in family firms tend to adopt, they do not explain the reasons that prompt the adoption of these roles or the implications this may have on a firm's performance.

CONCLUSIONS

The relationships within families are very dynamic and shift constantly during the family business life cycles, therefore there is a need to find some people who can function as a family "glue". That is why for the business owning families the role of the women behind the scenes, who are socialised to protect and nurture their families might represent a clue. Through her role as educator she will contribute to her children internalize certain family values such as mutual respect, which will be clue when they will all work together in the business, and apart from their different point of view, must strive to keep the family united. In some difficult

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situations mothers used to play a very specific consolatory role. Furthermore, women are endowed with the ability to perform several roles simultaneously such as work, looking after household and family, and they can provide the pliable adhesiveness that holds these changing families together over generations. (Salganicoff, 1990).

But it must be said that the role of the spouse behind the scenes in a family business is still far away from being acknowledged and valued. Therefore, this study enhances family business knowledge by discussing some data from Spanish family businesses. Even though, this quantitative study does not allow us to dig into the reasons behind the gender differences, at least the results allow us to appreciate the fact that indeed women do have to struggle with a large number of obstacles. These include not only obstacles to entering the family business, but also gaining access to ownership, receiving a significant amount of information about the family business and its activities, taking part on the board of directors, participating in the family protocols, just to mention the most significant ones.

The danger exists that with the excuse of the traditional gender specific roles, a clear positive discrimination towards men is hidden, both at a family and at a business level. In contrast, male family members occupy professional positions in the company more frequently than do female members, regardless of their professional training or skills. Thus, they decide the rules about shares distribution, and many other issues, based on the inherent discrimination of women through the legitimisation of male domination. (Garcìa Àlvarez ,2003).

Therefore, given the emerging reality that gender roles in family businesses are changing, and more women nowadays are foregoing a domestic career at home and pursuing a professional career instead of in the family business or elsewhere, it is about time that the relationship of women to the family business is seen as a possible win - win relationship.

However, it is worth for family businesses to recognise that it doesn’t matter how much of a central role women play in the business, as they are primary contributors to building social capital in family businesses, which makes a family business unique (Folker, Sorenson and Hoelscher, 2002).

Therefore, it might be worth for family businesses striving for longevity to reflect on the following suggestions to integrate females into the family business. One important starting point for a large number of family businesses could be the changing of some rules and structures into ones that are based on fairness and on equality for both men and women.

Furthermore, and this is the second point, is that behind the scenes spouses often provide a reminder of the need for balance between work and family, or they may take on certain family responsibilities, such as the creation of a family council, writing the family’s history, hosting family meetings, being the contact person for consultants, organising family retreats, planning family vacations, etc. From this family businesses have much to gain from the input of women, as many of the psychology and socialisation factors inherent in women enable them to humanise the work environment (Salganicoff, 1990).

A third and last point to take into consideration is that female family members, from their privileged position outside the business are often also able to influence positive business initiatives such as philanthropy. This is important because the commitment level of non-active shareholders is not only involved in the process of social preparation within the family, but also depends on the actions of the company itself.

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Hopefully, this study has been able to waken interest in the important asset that women who are backstage possess: the ability to foster long-term social ties, based on common beliefs and norms, better known as the family "glue. "

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THE ACCUMULATION PROCESS OF KNOWLEDGE IN FAMILY FIRMS

Francesco Chirico[18]
SBE Research Centres (P2115)
Wilfrid Laurier University
School of Business and Economics
75 University Avenue West
Waterloo, Ontario, Canada, N2L 3C5
Tel: +15198840710 ext. 3657
Fax: +15198849408
fchirico@wlu.ca
francesco.chirico@lu.unisi.ch

Abstract

This article aims to investigate how 'knowledge-related human capital' can be accumulated, i.e. created, shared and transferred, in family business over time. 'Knowledge-related human capital' is considered to be a combination of pure knowledge and skill, which family and non-family members working in the family firm have gained and developed through education and experience. Two wine producing family firms from Switzerland and a liqueur family firm from Italy are part of this research. We quote the most significant answers given by the interviewees in order to enable the reader to gain a clear understanding of the issues discussed, reflect upon them, and build his own opinions about them. A tentative knowledge model is developed based upon the review of the literature and the three case studies. It analyses factors responsible for the accumulation process of knowledge in family business across generations.

Key words: knowledge creation; knowledge sharing; knowledge transfer; education; experience; intellectual capital.

[18] Francesco Chirico is Visiting Scholar at the Wilfrid Laurier University, School of Business and Economics (Canada).

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INTRODUCTION

Knowledge is a significant source of competitive advantage, which enables an organisation to be innovative and remain competitive in the market (Polany, 1958, 1967; Nonaka, 1991; Nonaka and Takeuchi, 1995; Grant, 1996; Smith, 2001). It originates in the heads of individuals and builds on information that is transformed and developed through personal beliefs, values, education and experience (Bender et al., 2000; Bollinger et al., 2001). Researchers argue that 90 percent of knowledge in any organisation is embedded and synthesised in peoples' heads (Wah, 1999; Bonner, 2000; Lee, 2000). Knowledge is a non-consumable resource, which means that it is possible to use knowledge without using it up but only if it is updated to avoid obsolescence (Argyris and Schon, 1978; Sadler, 1988; Adler, 1989).

In this research knowledge is viewed as an accumulation and combination of:

- *Pure knowledge*, which is explicit knowledge: information and understanding of fundamental principles acquired through education (e.g. academic courses);
- *Skills*, namely tacit knowledge[19]: the ability to apply accumulated pure knowledge. The acquisition and development of skills usually require experience (e.g. training, direct observation, active participation in events or activities and so on). Skill also includes *innate skill*, which is the natural ability to do something well, i.e. talent (Schwartz, 1995; Dench 1997; Kaye, 1999). Innate skill is not learned but can be developed and built on. Lunn (1995) argues that training refines and develops talent but it does not create it. Therefore, skills are either acquired or innate. (O'Donnell et al., 1997).

In other words, skill is the ability to carry out a particular task or activity, especially because it has been practiced, whereas pure knowledge is the information needed to apply that skill (Dingle, 1995; Lindsay et al., 1997; Stuart et al., 1997). Krogh et al. (1995: 63) state that: "A person may have acquired a good theoretical understanding of carpentry, but the building of a house requires yet another knowledge, namely the skill of moving a hammer". The expert (competent person) is the person who not only knows but also has the ability to apply what he/she knows effectively and efficiently (Cornford et al., 1995). See Figure 1.

Figure 1. Competent Person.

Education → Pure knowledge + Experience → Skill

Competence

↓

Expert (competent person)

[19] *Explicit knowledge* is clearly formulated, articulated or defined and can be embodied in a code, or a language, and as a consequence it can be transmitted and communicated easily (text books, manuals, procedures, databases and so on); whereas, *tacit knowledge* refers to personal knowledge rooted in individual experience and involves mental models, beliefs, perspectives and values. Tacit knowledge is not easy to describe, share and transfer (know-how, skills…) and can be also unconscious as in the case of skills (Polanyi, 1958, 1967; Nonaka, 1991; Nonaka and Takeuchi, 1995; Smith, 2001; Hildreth and Kimble, 2002).

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For the purpose of this paper, *knowledge-related human capital (or knowledge or competence) in family business*[20] *is defined as pure knowledge and skill which family and non-family members working in the family firm have gained and developed through education and experience.*

Non-family members are also taken into account, because sometimes a family firm, in order to increase its opportunity advantages, has to behave as an 'open system' to find, exploit and organise external resources not available within the family business (for instance, employing talented non-family members 'skilled people') (Kaye, 1999).

Three main competences can be considered:

- *industry-related competences*, which are usually unique to each particular industry (e.g. specific knowledge and skills in product-making);
- *business competences*, which include ways of running the family business, acquiring/exploiting/developing resources, continuing to make and offer the best products and services, taking calculated risks or avoiding them, resolving problems and conflicts and handling situations of change and/or crisis;
- *ownership competences*, which means being good and active owners and being able to build an efficient government system to direct and control the business. These include: specifying the distribution of rights and responsibilities; adding economic value to the business; producing an overall positive impact on society, so as to maintain a fair balance between various stakeholders (shareholder value and corporate social responsibility).

This research is aimed at investigating the way knowledge-related human capital can be accumulated, i.e. created, shared and transferred in a family business over time. Understanding the above-process may help develop and maintain competitive advantage across generations (see Cabrera-Suarez et al., 2001).

Two wine producing family firms from Switzerland (Iurlaro and Cervo) and a liqueur family firm from Italy (Borsci) are part of this research. The Borsci family firm is in the third generation (G3) and the Iurlaro family firm is in the second generation (G2). They are both growing well. The Cervo family firm is in the third generation (G3) and has some problems that will be presented later on in this study. The paper will be organised as follows. After introducing knowledge as enabler of longevity in family business, the methodology of the qualitative research conducted with the research design, data collection and data analysis is presented. This is followed by a section which reports factors influencing the accumulation process of knowledge in family business. In this section we also transcribe the most significant answers given by the family-business members interviewed. The paper concludes with the discussion and conclusions of the main findings and results of the study, limitations and suggestions for further research. A tentative knowledge model which outlines the accumulation process of knowledge in family firms is presented at the end of this research. It is based upon the review of the literature and the case studies analysed (see figure 3).

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[20] A family business is here defined as a public or private company in which a family (or families related by blood or marriage) controls the largest block of shares or votes, has one or more of its members in key management positions, and members of more than one generation actively involved within the business (Miller and Le Breton-Miller, 2004; Westhead and Cowling, 1999). However, it should also be noted that within such a definition family firms differ both in terms of family generation in power, and in terms of ownership and management structures (cf. Gersick et al., 1997).

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KNOWLEDGE AS ENABLER OF LONGEVITY IN FAMILY BUSINESS

Knowledge needs to be created, shared and transferred to generate value over time. This is a major challenge faced by any firm in everyday business life, especially by *family firms*, when the new generation has to take over the business from the previous one (Cabrera-Suarez et al., 2001; Kellermanns et al., 2004). Succession is described as "the lengthiest strategic process for family firms" (Barach and Ganitsky, 1995 p. 131). It is considered to be a slow multistage process that involves an increasing participation of the successor and a decreasing involvement of the predecessor until the real transfer takes place. Succession is more a process over time than an event (Friedman, 1987; Churchill and Hatten, 1987; Farquhar, 1989; Cabrera-Suarez et al., 2001).

A four-stage model of succession in family businesses has been developed by Churchill and Hatten (1987). Stage 1 in this model corresponds to a stage of owner management, where the owner is the only member of the family directly involved in the business. Stage 2 consists of training and development, where the offspring learns about the business and how to run it. Stage 3 is a partnership stage between father/mother and son/daughter. The fourth and final stage corresponds to the transfer proper: the incumbent turns over overall responsibility and authority to the successor. Succession is so central and crucial to the existence of the family firm that Ward (1987) defines a family business as a business that will be passed on from generation to generation (Handler, 1994; Cabrera-Suarez, et al., 2001; Brockhaus, 2004). Family firms can perform well over time when the newest generation is integrated into the family business and the transfer of knowledge from the previous generation to the next takes place (Cabrera-Suarez, et al., 2001; Kellermanns et al., 2004). At the same time the newest generation has to add new knowledge and offer new perspectives (Handler, 1992; Kellermanns et al., 2004). Understanding how knowledge is accumulated through generations is important given that some studies indicate that only a third of family businesses successfully make the transition from each generation to the next, while only 5% of family firms are still creating value beyond the third generation (Miller and Le Breton-Miller, 2004; The Economist, 2004). A survey in the UK shows that only 30 per cent of family businesses reach the second generation; less than two-thirds of those survive through the second generation; and only 13 per cent of family businesses survive through the third generation (Bridge et al., 2003). Most family firms are not able to create value after the second generation and thus may not survive.

Researchers argue that recurring causes of business failure fall under the general category of 'business incompetence' caused by lack of knowledge and experience. Dun & Bradstreet (1991) reported that the main cause of business failure in the US is 'management incompetence of the business owner'. In their survey, over 66% of business bankruptcies were blamed on 'management incompetence'. Likewise, Gibb and Webb (1980) concluded that the primary failure determinants of over 200 bankrupt firms were lack of skills, knowledge and 'inattention' by management (Beaver, 2003). Caroll (1983) also confirmed in a 'summary of empirical research on organization mortality' that the main cause of failure falls under the general categories of managerial incompetence and lack of experience. Pennings et al. (1998) pointed out that low levels of human (and social) capital cause a high incidence of dissolution.

Therefore, the statistics showing the failure of family firms after the second generation might be partially explained by the predecessors' and/or successors' lack of capacity and/or willingness to create, share and respectively transfer and acquire the appropriate 'knowledge' from generation to generation (Szulanski, 1996; Cabrera-Suarez, et al., 2001; Kellermanns et al., 2004; Koiranen and Chirico, 2006).

Cabrera-Suarez et al. (2001) underline the importance of knowledge as a source of competitive advantage in family business; and Bjuggren et al. (2001) point out that there is a form of family idiosyncratic knowledge (and loyalty) that makes intergenerational succession within the family more profitable than other types of succession. In other words, knowledge may be seen as an 'enabler of longevity' in family business, i.e., as contributing to the survival of the family business (figure 3). In this respect, Cabrera-Suarez, et al., (2001, p. 39) argue that the "family firm's specific knowledge, as well as the ability to create and transfer it, are considered a key strategic asset that may be positively associated with higher level of performance".

METHODS

Research design

We chose a *qualitative, interpretative* and *exploratory* approach to gain insight into events. McCollom (1990) argues that qualitative research is particularly appropriate to the study of family business.

The research design is multiple-case, embedded study. Multiple cases permit a replication logic where each case is viewed as an independent experiment which confirm or not the theoretical background and the new insights. A replication logic yields more precise and generalisable results compared to single case studies (Eisenhardt, 1989; Brown et al., 1997; Yin, 2003). We relied on informants at two and often three levels of the generational hierarchy to yield a more accurate analysis. Moreover, the reliability of the study conducted was improved by using several levels of analysis, i.e. an embedded design, including family, business and industry (Yin, 2003).

For the purposes of this paper, it was decided to choose a private Italian family firm from Apulia (Borsci SA) and two private Swiss family firms from canton 'A'** (Iurlaro SA and Cervo SA), all of which had the potential of yielding interesting insights based on commonalities and differences emerging from comparison amongst them (see Table 1). They all belong to the beverage industry; in particular, the Iurlaro and Cervo family firms belong to the wine industry, and the Borsci family firm to the spirits industry. In those manufacturing sectors, which are dominant businesses both in Italy and Switzerland, the family-business knowledge and traditions have been especially important through generations. Moreover, in each generation, family members of at least two generations have been always involved. Hence, this dataset is ideal for studying the model depicted in figure 3. Names given to firms and other information have been disguised for confidentiality reasons. Table 1 reports the case studies used in this paper and Appendix I reports the family-business histories and family trees.

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Table 1. Description of Case Studies.

Family business	Founded	Latest active generation	Country	Industry
Borsci SPA	1840	3rd*	Italy	Spirits
Iurlaro SA	1944	3rd	Switzerland	Wine
Cervo SA	19xx**	3rd	Switzerland	Wine

(*) We decided to consider only the last three generations of the Borsci family firm starting from the point when the artisan activity turned into an industrial business (around 1900).
(**) Some information is not available for confidentiality reasons.

Data collection

Data were collected through personal interviews, questionnaires, secondary sources (newspapers, company internal documents, company slide presentations, company press releases, company web sites and articles from magazines), conversations and observations in 2005 (except for two interviews with a manager of the Borsci SPA in 2004). Semi-structured interviews were conducted with individual respondents who were active family members of the latest generation and of previous generations (mangers with a long presence within the firm). Interviews were conducted during several formal and informal meetings with an average length of two-three hours. After each interview the research team discussed its impressions and observations taking notes. The interviews were always taped and transcribed word for word within six hours after the interviews. They were listened to by two or three members of the research team in order to check for consistency of interpretation.

The interviews were conducted in two parts. In the first part, open-ended questions were asked without telling respondents about the constructs of interest in the study in order not to influence them. They had the opportunity to relate their stories of how knowledge has been accumulated over time. During this phase, probing questions were asked to obtain more details related to the stories discussed by respondents. In the second part, closed-ended questions were asked about the accumulation process of knowledge across generations and the role played by specific factors (e.g. collaboration, working outside the family firm, academic and training courses and so forth) on the process as a whole. In addition, respondents had to answer using also a five-step Likert-type scale (from 1 'low value' to 5 'high value') to identify the evolution of several dimensions across generations (e.g. the way knowledge evolved from generation 1 to generation 3). It was a joint effort by members of the research team in order to test for consistency of interpretation. After interviews, telephone calls were made to confirm our understanding of the answers given by the respondents and to complete missing data. We recognise that the anonymity for companies and respondents encouraged sincerity and openness.

Data analysis

Three separate extensive case studies were built from data gathered from primary and secondary sources. Results were consistent with the initial theoretical framework and, in some cases, helped the research team to integrate it. For this reason, data analysis was undertaken using a combination of deductive and inductive methods. The whole process took about five months to complete. The approach was integrated with a growing body of

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methodological literature on case study research and cross-case analysis in order to perform cross-case comparisons looking for similarities and differences.

Triangulation of multiple sources of evidence (primary and secondary sources) and the development of case study databases improved the validity and reliability of the study conducted (see Eisenhardt, 1989; Stake, 1995; Miles and Huberman, 1994, Yin, 2003).

HOW TO CREATE, SHARE AND TRANSFER KNOWLEDGE ACROSS GENERATIONS

Knowledge, especially tacit knowledge, is hard to transfer; it is fragile and subject to decay or loss if it is not shared and passed on from generation to generation, primarily in the form of apprenticeship and mentoring. Pure knowledge can be more easily shared and transferred inside a family firm through courses, manuals, procedures and so on. Instead, skill is invisible and highly personal: it needs more complex and longer processes to be shared and transferred (observation, face-to-face interaction, extensive personal contacts between family members/generations and so on).

Nonaka and Takeuchi (1995) point out that knowledge is created and then expanded (shared and transferred) through social interactions between tacit and explicit knowledge and individual and collective knowledge (SECI model: *socialization*, *externalization*, *combination*, *internalization*[21]*)*.

Individual knowledge becomes part of the collective wisdom of the firm (i.e. organisational knowledge embedded in routines and processes) once it is shared and transferred over time (Nonaka and Takeuchi, 1995; Rich and Duchessi, 2001). In a family business context, successors should acquire knowledge from the previous generation but also add new knowledge gained through education and personal experience inside or outside the family firm (Cabrera-Suarez et al., 2001; Kellermanns et al., 2004). An interesting comment was made by Lorenza Borsci[22] (Generation 3), one of the managers and owners of the Borsci Industria Liquori S.p.A: *"our success depends on the 'experience' and 'knowledge' gathered and handed down through the generations and acquired from outside"*.

According to the literature and the case studies analysed, knowledge-related human capital is best created, shared and transferred in a *business (and family) environment* in which members of the family firm involved in the succession (predecessors and successors) strongly value the following factors:

[21] "The first step, socialization transfers tacit knowledge among individuals through face-to-face communication, observation, imitation, shared experience and practice (e.g. apprenticeship). This kind of tacit knowledge sharing takes place between people who have a common culture and can work together effectively. In the next step, externalization is triggered by dialogue or collective reflection and relies on analogy or metaphor to translate tacit knowledge into documents and procedures. Converting tacit knowledge into explicit knowledge means finding a way to express the inexpressible (Stewart, 1997). Combination consequently reconfigures and combines pieces of explicit knowledge by sharing explicit knowledge through meetings, documents… Lastly, internalization translates explicit knowledge into individual tacit knowledge (first verbalised and then absorbed, so that explicit knowledge becomes part of the individual's knowledge base). For instance, people can re-experience what others previously learned and have the opportunity to create new knowledge by combining their existing tacit knowledge with the knowledge of others by reading documents or training courses" (Nonaka and Takeuchi, 1995).

[22] Borsci Industria Liquori S.pA., Taranto, Italy.

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- Working within the family firm: ties, cooperation and collaboration enhanced by trust;
- Motivation and commitment;
- Emotional attachments 'psychological ownership';
- Academic courses and practical training courses;
- Working outside the family firm;
- Employing/using talented non-family members.

The text that follows can be read by researchers as hypotheses and suggestions for further research, and by managers as possible factors needed to accumulate knowledge in order to be successful across generations (see figure 3). We will quote the most significant answers given by the interviewees in order to enable the reader to gain a clear understanding of the issues discussed, reflect upon them, and build his own opinions about them.

Working within the family firm: ties, cooperation and collaboration

Working within the family firm is important in order to acquire experience and develop skills day by day. People make mistakes and learn how to resolve problems. Ties, cooperation and collaboration allow face-to-face interactions and more generations to work together before and during the transition process (Daft and Lengel, 1984). Coleman (1988) analyses social capital as creator of human capital and Kusunoki et al., (1998) posit that the dynamic interaction of knowledge, as processes of knowledge accumulation, depends largely on the social context within the organisation.

Indeed, strong relationships between the two generations positively contribute to the stage 'training and development of the successors' described by Churchill and Hatten (1987) in their four-stage model of succession (Lansberg, 1988; Chrisman et al., 1998; Nahapiet and Ghoshal, 1998; Cabrera-Suarez et al., 2001; Le Breton-Miler et al., 2004).

Several researchers (e.g. Gersick et al., 1997; Cabrera-Suarez et al., 2001; McClendon & Kadis, 2004; Kellermanns et al., 2004; Salvato, Pernicone and Chirico, 2006) argue that successful strategic and knowledge development over time is facilitated by communication and cooperation between and within the generations of the family business. The above-mentioned processes may be facilitated in family firms, compared to non-family firms, thanks to the intense social interactions between family members (see Tagiuri and Davis, 1996; Cabrera-Suarez et al., 2001). For instance, Tagiuri and Davis (1996) argue that the emotional involvement, the lifelong common history and the use of a private language in family businesses enhance communication between family members. First, this allows them to exchange knowledge (especially tacit knowledge) more efficiently and with greater privacy compared to non-family businesses (Tagiuri and Davis, 1996; Cabrera-Suarez et al., 2001); second, it develops idiosyncratic knowledge which remains within the family and the business across generations (see Coleman, 1988; Bjuggren et al., 2001; Cabrera-Suarez et al., 2001; Kellermanns et al., 2004). In successful multigenerational family firms the previous and following generation exchange ideas and encourage mutual learning (Handler, 1991; Cabrera-Suarez et al., 2001; Kellermanns et al., 2004).

Goldberg (1996) demonstrated the importance of 'appropriate experience working together' in his study made of 63 family business CEOs. Effective successors had many more years of experience working in the family business than did the less effective group of his study. The mean age effective successors entered the business on a full time basis was 23 years old, while their counterparts joined at a mean age of 29 years old.

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The following comments reflect the importance of 'working within the family firm' and of 'family relationships' in family business:

Giuseppina Borsci[23] (Generation 3): *"I have learned almost everything working within our family business, acquiring knowledge from the previous generation and developing and sharing it with the present generation. 'Overall Knowledge' acquired through experience working together across generations and within the same generation. My cousins and I worked for about 25-30 years in the family firm with the previous generation until 1997. We started with simple tasks, very boring sometimes but important in enabling us to understand better from the bottom-up how to run the business and how to make it work. Every generation brings something more which creates value in the business. We have grown up in the family firm as persons, managers and now owners. The second generation was able to teach us directly and indirectly all the tricks of the trade in production, administration and distribution. Our parents also taught us how to communicate and cooperate with each other and solve problems".*

Lorenza Borsci: *"My father and uncles were very good and active as owners. They used to invite us to the meetings of the Board of Directors to teach us how to run the business. We govern our business with the same behavioural ethics of honesty and respect learned from the previous generation".*

Claudio Iurlaro[24] (Generation 2): "*The firm was small and not well developed in G1. I remember how I started working and now I know where I am. A lot of work has been done to achieve such results. I learned from my mistakes how to produce wine of high quality…My nephew, Mattia (G3) is acquiring and adding new knowledge working in the family firm day by day, in a learning-by-doing process. Mattia also has a sense of responsibility for the family firm and works hard for it. Cooperation and collaboration are essential to create, share and transfer knowledge in the long run".*

Carlo Cervo[25] (Generation 3): *"My father had been working with my grand father for 15 years learning all the 'tricks of the trade' from him… I joined the business when I was 22 years old… I have learned and I am still learning a lot from my father. The basis of my knowledge was learned at school but, of course working in the family firm allowed me to learn day by day how the business works and how to make it work better".*

Hence, 'working within the family firm', having 'face-to-face interactions' and 'more generations which work together' allow family (and non-family) members to create and share their knowledge. Offspring have the opportunity to learn directly from the old generation in a 'learning-by-doing process' how to run the family firm, how to be a good 'family owner' and, more importantly, all the tricks of the trade related to the business (Coleman, 1988; Nonaka and Takeuchi, 1995: see Nonaka's spiral of knowledge 'socialization'; Cabrera-Suarez et al., 2001).

Certainly, such interaction between generations should begin when offspring are growing up in order to ensure sufficient training and not when they are about to take over the firm (Longenecker and Schoen, 1991; Chrisman et al., 1998).

[23] Borsci Industria Liquori S.pA., Taranto, Italy.
[24] Iurlaro SA, Switzerland.
[25] Cervo SA, Switzerland.

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In this way, each succession adds considerable new experience to the family firm (Cabrera-Suarez et al., 2001). But, this significantly occurs from the first to the second generation when family values, beliefs, traditions and commitment are very high (see Carlo Cervo's speech in the section 'Motivation and Commitment'), as reported by Astrachan et al. (2002).

Furthermore, the most important issue for cooperation and collaboration is trust (see, for instance, Argote, 1999; Nahapiet and Ghoshal, 1998; Faustine, 2001; Salvato, Pernicone and Chirico, 2006). Family firms are often depicted as being high in trust (LaChapelle and Barnes, 1998; Steier, 2001). The greater the level of trust, the greater the level of openness (which enables cooperation and collaboration) and the better the opportunities and willingness, especially for tacit knowledge to be created, shared and transferred over time (Dyer, 1986; Lehman, 1992; Mayer et al., 1995; Tagiuri and Davis, 1996; Faustine, 2001; Koskinen, 2003). 'Openness' refers to the free flow of truthful information between family-business members (see figure 3).

Excerpts from interviews provide insights as follows:

Giuseppina Borsci: *"The previous generation knew that relations among cousins are not easy sometimes. This is why they gave us some rules and we just respect them in order to avoid problems between us. We respect and trust each other (G3) thanks to the effort put in by the previous generation. Trust was, and still is, essential to work well together".*

Claudio Iurlaro: *"Trust is considered an important value enabler of cooperation and collaboration. We trust each other and work for the success of the firm".*

Carlo Cervo: *"My father and my uncles (G2) were able to build a solid firm which has been growing since the 1960s. Trust was a key factor for their success. Nowadays, the business is divided into three parts: administration, production, and distribution. Each member of the third generation works with his father* (except for 'son3' and 'son4' who work with 'owner3') *in a specific area of business* (see Appendix I)*". Our relations are not very good.* It seems that relations between family members are not strong and cousins (G3) do not trust each other so much.

Motivation and Commitment

A recipient and/or a source's lack of motivation to keep the business as a family firm and a low degree of commitment to the family business may negatively effect the accumulation process of knowledge within the business (see for instance Nonaka and Takeuchi, 1995; Barach and Gantisky, 1995; Szulanski, 1996; Astrachan et al., 2002; Sharma et al., 2001; 2003; Le Breton-Miler et al., 2004; Koiranen and Chirico, 2006).

Koskinen (2003) posits that motivation generates commitment, which is the willingness to work hard and give time and energy to an activity. Particularly, a family's commitment to the business concern refers to the extent to which family members desire the perpetuation of the business in the family (Sharma et al., 2003).

As pointed out by Carlock and Ward (2001), commitment encompasses: personal belief and support of organisational goals and visions; willingness to contribute to the

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organisation; and desire for good relations with the organisation. Thomas (2001) argues that not every family member can have the same degree of commitment and interest in the family business, especially after the second or third generation. In fact, family relationships generate unusual motivation, commitment and loyalties, and increase trust although values, beliefs, traditions and commitment tend to decrease after the second or third generation when usually problems arise (Tagiuri and Davis, 1994; Astrachan et al., 2002; see the Carlo Cervo's speech) (see figure 3).

Comments from interviewees are given below:

Giuseppina Borsci: *"Motivation and commitment have always been very high. There is (and was) an easy flow of information within and between generations".*

Claudio Iurlaro: *"As for me…the business is my life. My nephew, Mattia (G3) is also very motivated and committed to the family firm. He is acquiring and adding new knowledge to the business".*

Carlo Cervo: *"Motivation and Commitment are some of the first things that family members must have. When I retire, I will need a successor – my cousin(s) – very motivated and committed to the business. I do my best to share and transfer all my know-how to my cousins (G3) even though sometimes it is not easy because young people are more disorganised, less concentrated, and have a lot of interests".* It appears that Carlo's cousins (G3) are not as motivated and committed to the business.

Emotional attachments 'psychological ownership'

Psychological ownership is the psychologically experienced-phenomenon in which owners, managers and employees develop possessive feelings that the family firm is 'mine' or 'ours'. In other words, it refers to the family and non-family members' possessive emotional feelings over the family business with a strong sense of identity, belonging and responsibility over the business (Koiranen, 2006: adopted from Pierce et al., 2001, 2003). For instance, strength of identifying oneself with the family business, sense of belonging to the family business and strong feeling of responsibility over the family business. In particular, investing a lot of energy, time, money, and/or emotions during an activity is part of family members' identity and culture which increase their feeling of possession over the business. In other terms, it is a state of mind, feelings and attitudes (Hall, 2005). The hope is that future generations will feel the same strong emotional attachment to the family business, which makes it easier to acquire, create, share and then transfer knowledge across generations (Reagans et al. 2003; Chirico, 2007) (see figure 3).

The following examples show the importance of psychological ownership in family business:

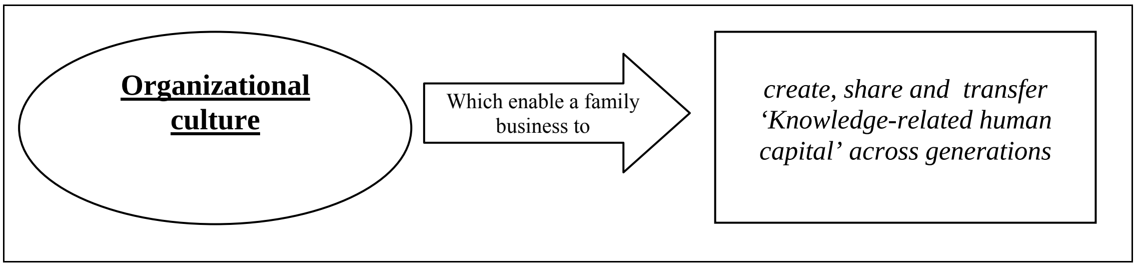
Giuseppina Borsci: *"The business has always been a big part of family members' life. I remember my father and uncles who used to spend 15 hours a day in the firm. Their life was the Borsci family firm. Nowadays, we still work hard and we are very committed to the family firm (product-line-extension, diversification, acquisition of Astrelio, etc.) but we also have time to enjoy our life. In addition, we are more specialised in our area and we are able to better control the business".*

Claudio Iurlaro: *"I have been working all my life in the family firm - since 1968. I identify myself with the family firm. I feel part of it and a strong responsibility to it…I follow the production of wine from the land to the label in order to guarantee the final product consumed by the customer. Mattia also feels responsible for the family firm and works hard for its success".*

Carlo Cervo: *"I have been working for more than 30 years in the family firm. I do not have anything else than my business and I have given all my life to the business, I made a lot of sacrifices for it…my motivation and commitment are very high. I feel this is my own place. I am glad when I go on holidays but I miss my place. It was the same in the second generation, with my father and uncles, and in the first generation with my grand father. My father is 81 years old and he is still active in the business. His main interest has always been the wine business. The same is true of my uncles. I do not know about the future…when I retire and my father and my uncles die…'we will see' if the Cervo firm will go on. Moreover, I am not married, I do not have children, and my cousins' sons are not interested in the firm…maybe the business will shut down after this generation".*

The study of more than forty family firms made by Gibb (1988) indicates that a family-business culture plays an important role in determining whether the firm continues successfully beyond the first generation. The family-business culture stems from the combination of different patterns (see Dyer, 1986; Zahra et al., 2004) which result from the social relations within the family business and the beliefs, values, commitment and emotions embedded in the family. Astrachan (1988: 166) underlines that "culture is thus a manifestation of relationships among people". It creates a sense of belonging to a group where the group is a part of the individual and the individual is a part of the group. The factors mentioned earlier (ties, cooperation, collaboration, motivation, commitment and psychological ownership) allow a family firm to develop a strong *organisational culture* of continuous improvement and learning in which cooperation and collaboration carry a lot of weight in the accumulation process of knowledge from generation to generation (Schein, 1983; Hall et al., 2001; Swee, 2002; Zahra et al., 2004) (see figures 2 and 3). Indeed, a learning organisation is the one in which the *culture* is maximised in order to increase knowledge creation by sharing and transferring it (Kim, 1993; Hall, 2001). Garvin (1993: 51) defines a learning organisation as ''an organization skilled at creating, acquiring, and transferring knowledge, and modifying its behavior to reflect new knowledge and insights''; and Alvesson (1993: 2, 3) defines 'culture' as a "shared and learned world of experience, meanings, values and understanding, which inform people and which are expressed, reproduced and communicated in a partly symbolic form".

Figure 2.Organisational Culture as Enabler of Knowledge Creation, Sharing and Transfer Process.



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Furthermore, according to the literature and the case studies analysed, knowledge is also created 'working outside the family firm' and created, shared and transferred through 'academic courses and practical training courses' (Rosenblatt et al., 1985; Dyer 1986; Ward, 1987; Lansberg, 1988; Churchill and Hatten, 1987; Lansberg and Astrachan, 1994; Nonaka and Takeuchi, 1995; Barach and Gantisky, 1995; Cabrera-Suarez et al., 2001; Le Breton-Miller et al., 2004).

Academic courses and practical training courses

Academic courses and practical training courses are a form of learning activity by which people, in the case in point the members of the family firm, can re-experience what others previously learned and have the opportunity to create new knowledge by combining their existing tacit knowledge with the knowledge of others (Nonaka and Takeuchi, 1995: see Nonaka's spiral of knowledge 'internalization').

Particularly, *academic courses and practical training courses outside the family firm* in schools, universities, firms, institutions, and so on, allow people to acquire 'pure knowledge' and develop 'skills' respectively which, once brought into the family firm, must be shared with and transferred to the other members of the firm. Conversely, *practical training courses within the family firm* allow people to acquire, share and transfer knowledge across generations (Dyer 1986; Ward, 1987; Churchill and Hatten, 1987; Barach and Gantisky, 1995; Goldberg, 1996; Le Breton-Miller et al., 2004) (see figure 3). In small-to-medium family businesses, practical training courses within a family firm can be simply translated into 'activities of working together' (see Dyer, 1986; Cabrera-Suarez et al., 2001; Le Breton-Miller, 2004) by which members of the firm create, share and transfer knowledge (especially tacit knowledge) day by day often unconsciously (e.g. apprenticeship). For this reason, *practical training courses within the family firm* are included in the box 'working within the family firm: ties, cooperation and collaboration' in figure 3. Internal apprenticeship can be viewed as an excellent training in traditional industries which do not operate in environments of rapid change. Outside training is, instead, essential when the market changes very quickly (Le Breton-Miller et al., 2004).

Comments reflecting the importance of academic and training courses in family business are reported below:

The managers of the family firms interviewed recognise that the basis of their knowledge has been developed at school. Dyer (1986: 27) believes that "the college or technical degree is the first hurdle that potential successor must overcome". Lorenza and Giuseppina Borsci have followed several specialisations in Business Economics. Claudio Iurlaro has a Diploma in Economics (Lugano) and a Diploma in Oenology (Lausanne). He has also followed several courses in continuing education at the University of Bordeaux (1989/90 - 2000). Carlo Cervo has a Diploma in Economics (School of Geneva: École Supérieure de Commerce) and a Diploma in Viticulture and Enology (School of Lausanne: École Supérieure de viticulture et oénologie).

Giuseppina Borsci: *"Knowledge is also acquired through training courses within and outside the firm (in production, management, and so on) provided for family and non-family members, for managers and shop-floor workers".*

Claudio Iurlaro: *"My nephew (Mattia) did several internships in wine firms and will do*

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another one abroad soon. Moreover, Mattia will attend a School of Oenology for two years (2007/2008) in order to improve his competencies and add new value to the family firm".

Carlo Cervo: *"We do not have training courses at the moment even though I admit that they are important and especially needed in our firm…we operate in a dynamic market".*

Working outside the family business

Working outside the family firm gives a more detached perspective over how to run and how to introduce changes and innovation in the business. As reported by Brockhaus (2004), many consultants recommend spending at least three to five years in another business. Experience outside the family firm helps the successor to develop a knowledge-base and a sense of identity. It prepares him/her for a wider range of problems that can occur later in the family business (Barnes, 1988; Barach et al., 1988; Correll, 1989; Barach and Gantisky, 1995; Le Breton-Miller et al., 2004). Ward (1987) adds that working outside the family firm is crucial because it gives offspring experience in developing new strategies, adding formal management systems and building new management teams in the business. For this reason, knowledge acquired outside the family firm must be shared and transferred within the family business over time (see figure 3).

This view is consistent with the following comments:

Giuseppina Borsci: *"We have learned and we are still learning a lot from outside, working and cooperating with external partners. My nephew, Roberto, worked for other companies in order to acquire more experience before joining the Borsci family firm in 2005".*

Claudio Iurlaro: *"I worked for six months in a wine firm in Germany and for six months in a wine firm in Switzerland before starting the business. Such experiences have also taught me how to run my business…My nephew has also worked in other firms".*

Carlo Cervo: *"If you want to learn something more, you have to leave home for a while. You need to go outside, have a different view of your business and of how to do business. I worked for nine months in a wine firm in South Africa and six months in a wine firm in Germany. Unfortunately, my cousins do not have work experiences outside the family firm".*

Employing/using talented non-family members

Knowledge can be also acquired by employing/using talented non-family members (skilled people) who work for or have relations with the family firm. In fact, sometimes, in order to increase its opportunity advantages a family firm has to behave as an 'open system' which finds, exploits and organises external resources not available within the family business (Lansberg, 1988; Dyer, 1988; Keough and Forbes, 1991; Kaye, 1999; Le Breton-Miller et al., 2004). Employing/using external members is an indication of the openness and flexibility of the family firm (Ward, 1987; Alderfer, 1988; Malone, 1989; Jaffe and Lane, 2004) (see figure 3).

This view is also suggested by the following comments:

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Giuseppina Borsci: *"We have learned a lot from external experts who joined our business. I have personally acquired knowledge working with the new sales manager employed in the 1970s* (Mr Franco Rovida, from the company Ramazzotti). *Today, the sales director and managing director are non-family members. They are really an important asset".* Knowledge in creating blends of liqueurs (product-line-extension and diversification) and in management improved with the new generation (G3) and with the new, skilled non-family members employed in the 1970s. The family firm also resorts to, and benefits from, consultants. The family firm has always been open to acquiring skills from outside, but never more than today. Giuseppina Borsci: *"Some entrepreneurs from the South of Italy think they know everything; but it is not possible. External assistance is needed. We continually invest money in acquiring knowledge from outside. Research was and still is important. The best place in which research can develop is the university. We have good relations with some universities and we draw advantage from their studies and surveys into our sector, into what we produce. For instance, we are cooperating with a Professor on the creation of new kinds of Astrelio chocolate".*

Claudio Iurlaro: *"Knowledge is also acquired from outside the family. We have an engineer who is responsible for the vineyards and an expert oenologist who is responsible for the cellar. Strong relations are established with research centres and universities (a professor of the University of Bordeaux follows the tasting of wines every two years. Researches have been conducted in order to learn how to produce high-quality young wine and white wine from red grapes), with specialists in management (e.g. an Italian specialist of sales and marketing every week helps us to increase sales. We are acquiring new competences in management through this kind of cooperation and a six month long training course. The cost was about 30,000 Swiss francs) and so on".*

Carlo Cervo: *"Today, we rely more on internal human resources".*

DISCUSSION AND CONCLUSIONS

The purpose of the present research was to make a contribution to the understanding of the critical factors that influence the accumulation process of knowledge in family business.

The **Borsci** family firm is in the third generation (G3) and is growing well. Cooperation, collaboration and trust are still very high as well as motivation, commitment and psychological ownership. As noted by Giuseppina Borsci, *"the second generation did a great job of building and maintaining a positive and friendly environment within the family and the business. There is (and was) an easy flow of information within and between generations".*

In addition, the Borsci family firm also pays great attention to training courses, working outside the family firm and employing/using external family members. As a matter of fact, its overall level of knowledge has increased from generation one to generation three, as shown in Table 2.

The **Iurlaro** family firm is in the second generation (G2) and it, too, is growing well. All factors influencing the creation, sharing and transfer process of knowledge are very high, as can be interpreted through the comments recorded in this paper. The overall level of knowledge has risen from generation one to generation two (see Table 2).

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Power is centralised under Claudio Iurlaro who appears to be good at directing and controlling the family firm and at distributing rights and responsibilities to family and non-family members. According to Claudio Iurlaro's comments, knowledge is expected to go on increasing in G3 (with Mattia, who joined the business in 2003). For instance, Claudio Iurlaro recognises that his nephew, Mattia (G3), is acquiring and adding new knowledge by working in the family firm day by day, in a learning-by-doing process. Mattia seems to be very motivated and committed to the family firm and works hard for it. He did several internships in wine firms and will attend a School of Oenology for two years (2007/2008) in order to improve his competencies and add new value to the family firm.

The **Cervo** family firm is in the third generation (G3) and problems are growing mainly because of the low degree of trust, collaboration, motivation, commitment and psychological ownership between members of the third generation (in particular, Carlo Cervo's cousins). In addition, the Cervo family business is not paying enough attention to training courses, working outside the family firm and employing/using external family members in G3. As a consequence, the overall degree of knowledge has decreased from the second to the third generation (see table 2). Knowledge has not been completely lost in the third generation thanks to Carlo Cervo who is still very motivated and committed to the business. He states: *"I have acquired new knowledge in business and wine making. In the last twenty years I have participated in different conferences related to the wine market. It is important to know how the grapes grow and how to take the best from them in wine making"*. He feels he belongs to the second rather than the third generation. He gives the impression, that he does not believe that his cousins have a strong motivation, commitment and psychological ownership to the family firm. He says: *"My cousins do not own the business but just work for it"*. The ownership of the family firm is in the hands of G2 including Carlo Cervo. Further, each member of G3 works with his father (except for 'son3' and 'son4' who work with 'owner3') in a specific area of the business (see Appendix I). It appears that cousins (G3) do not trust each other so much and, as a result, cooperation and collaboration are not very strong. Consequently, the sharing and transfer process of knowledge is not easy to realise.

The future appears to be very uncertain and knowledge is likely to be lost with Carlo Cervo's retirement. In fact, Carlo Cervo seems to be quite sceptical about the continuity of the family firm after his retirement. He underlines that he usually does his best to share and transfer his know-how to his cousins (G3). But he also admits that this is not an easy task to accomplish because his cousins are not enough motivated and committed to the family business. He concludes that: *"I am not married, I do not have children, and my cousins' sons are not interested in the firm… maybe the business will shut down after this generation"*.

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Table 2. Level of Knowledge across Generations.*

BORSCI SPA

	G1	G2	G3
Industry-related competences (e.g. specific knowledge and skills in product-making)	**3**	**4**	**5**
General business competences (for running the business 'management, marketing, finance...')	**3**	**4**	**5**
General ownership competences (for being a good and active owner 'governance, control…')	**3**	**4**	**5**

IURLARO SA

	G1	G2	G3**
Industry-related competences (i.e. specific knowledge and skills in product-making)	**1**	**5**	**n.a.**
General business competences (for running the business 'management, marketing, finance...')	**2**	**4**	**n.a.**
General ownership competences (for being a good and active owner 'governance, control...')	**3**	**4**	**n.a.**

CERVO SA

	G1	G2	G3
Industry-related competences (i.e. specific knowledge and skills in product-making)	**2**	**4**	**3**
General business competences (for running the business 'management, marketing, finance...')	**3**	**4**	**3**
General ownership competences (for being a good and active owner 'governance, control...')	**2**	**3**	**3/2**

(*) Five-step Likert-type scale from 1 'low value' to 5 'high value'
(**) G3 is represented by Mattia who joined the business recently (year 2003)

The three case studies highlight the importance of specific factors whose combination enhances knowledge across generations even though it does not imply that all of them are essential or have the same amount of importance. For instance, Lorenza Borsci says: *"Learning-by-doing is (and was) more important than academic courses in our company"*. In particular, our sample shows that high level of emotional involvement of family members and intense social interactions between them facilitate the accumulation process of knowledge in family business. In contrast with Astrachan et al., (2002), the family firms analysed (except for the Cervo SA) are still very committed and proactive for the wealth of the family business although they passed the second generation. For instance, Giuseppina Borsci underlines that *"the history of Borsci entrepreneurs is continuing. After the second generation family businesses usually start to maintain what they already have. We did the opposite by starting the product line-extension and the diversification of our products (which are both knowledge-based), and by acquiring a new company, the Astrelio Maestri di Cioccolato, S.p.A."*.

To conclude, knowledge can be depicted as the most important strategic resource of any firm. The ability to acquire, develop, share, transfer and apply it enables a firm, in the case in point a family business, to generate higher value of performance over time (Grant, 1996; Cabrera-Suarez et al., 2001; Kellermanns et al., 2004). This is why, family firms should be more careful in sustaining, maintaining and developing knowledge across generations.

We encourage family firms to enhance their own knowledge, viewed as 'enabler of longevity', by creating, sharing and transferring it across generations. A *tentative knowledge model* related to the accumulation process of knowledge in family firms is depicted in figure 3. It is based on the review of the literature and the three case studies analysed. It summarises concepts and relationships explored in this research. As already mentioned, the causal relations indicated in figure 3 can be read by researchers as hypotheses and suggestions for further research, and by managers as possible factors

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needed to accumulate knowledge in order to be successful across generations.

As depicted in figure 3, the accumulation process of knowledge is positively related to the longevity of the family firm. At the top of the model lie the factors which positively influence the acquisition of knowledge from outside the organisation: academic courses and practical training courses outside the family business; working outside the family business; and employing/using talented non-family members. At the bottom of the model are the factors which positively influence the accumulation process of knowledge within the family firm: working within the family firm; ties, cooperation and collaboration; motivation and commitment; and emotional attachments - 'psychological ownership'.

For multigenerational family firms to succeed, the new generation needs to acquire knowledge from the previous one while at the same time adding new knowledge and offering new perspectives for the sustainability of the family firm over time (Kellermanns et al., 2004). Indeed, Cabrera-Suarez et al., (2001) and Bjuggren et al., (2001) underline the importance of knowledge as a source of competitive advantage in family firms.

Although it was beyond the scope of this paper, we recognise that our study was limited in that it did not take into consideration the reluctance of the previous generation to accept new knowledge and management approaches (Lansberg, 1988; Davis and Harveston, 1999) and the reluctance of the new generation to recognise the previous work and knowledge brought by the previous generation (Cabrera-Suarez et al., 2001).

The 'working within the family firm: ties, cooperation and collaboration's construct' depicted in figure 3 is of vital importance to overcome the problem described above. Sharma (2004, p. 13) posits that "a supportive relationship characterised by mutual respect enables the smooth transition of knowledge" across generations.

Successful multigenerational family firms are those in which the previous and following generation communicate to each other, exchange ideas, offer feedback and support mutual learning. The previous generation must have the flexibility to explore and accept the new knowledge and the new way of doing business of the new generation. At the same time, the new generation must appreciate the previous generation's knowledge and contribution to the firm (Davenport and Prusak, 1998; Cabrera-Suarez et al., 2001; Kellermanns et al., 2004). Further research is needed in this direction.

In addition, taking into consideration some of the possible critical factors that influence the accumulation process of knowledge is itself another limitation of this study. Yet, it was needed in order to build up a simple model useful for researchers and practitioners.

This study did not set out to draw statistically significant conclusions, because of the small size of our sample. As a consequence, the model represented in Figure 3 cannot be generalised to all family businesses, although its validity can be improved by introducing other case studies into the research.

The intent was to focus the attention of family-business researchers and practitioners on the knowledge issue, which appears to be of great importance to family firms. In fact, succession has attracted considerable attention in the family-business literature (e.g. Barach and Ganitsky, 1995), but the process of knowledge creation, sharing and transfer across generations has not been extensively studied.

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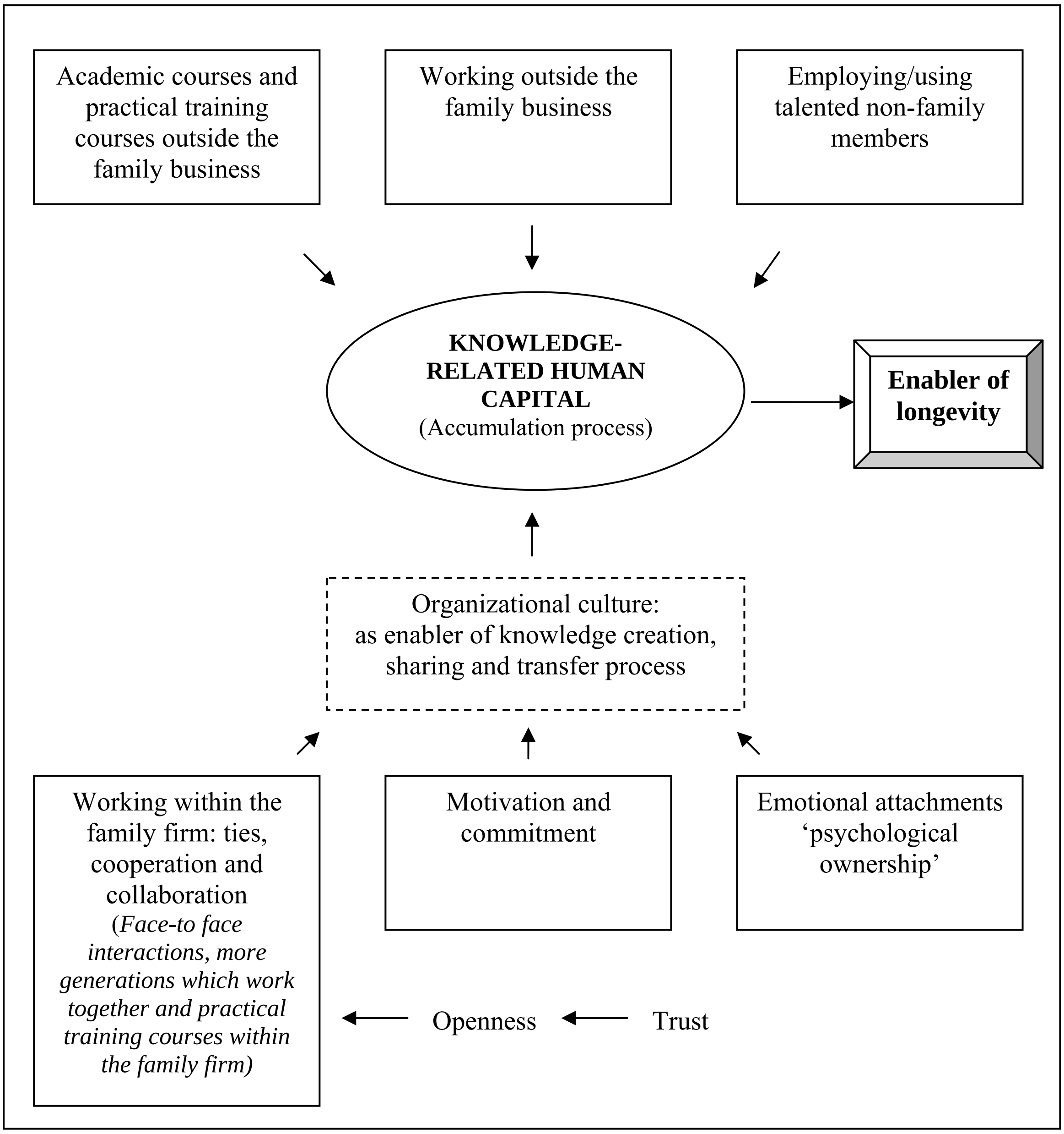
Figure 3. A Tentative Knowledge Model: The Accumulation Process of Knowledge-related Human Capital.



We see our research efforts as a point of departure for guiding and pushing forward further theoretical and empirical research. We hope that our model can serve as a framework for researchers and practitioners on how to facilitate the accumulation process of knowledge within a family firm. Its implications should be extended to help explain why some family firms survive through generations and others do not. Indeed, given the high relevance of these issues for both researchers and practitioners additional studies are clearly needed in order to examine and test further on a large representative sample the model in figure 3. It would be also interesting to analyse non-family firms to compare if, definitively, the model proposed is exclusive of family firms or not. Further research may be also aimed at empirically measuring the effect and weight of each factor on the accumulation process of knowledge and find out what happens if they act in concert.

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Additional investigations may further develop the model in figure 3 and include other relevant dimensions. Future research may be also directed at exploring the process by which knowledge generates trans-generational value in family business. It would be also of great worth to explore the negative effects that some aspects of the family-business culture such as Nepotism or Paternalism may generate on the entire process. This is the future direction of the present research.

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APPENDIX I

Borsci S.p.A: 1840 was a milestone in the history of the Borsci family. It was in 1840 that Giuseppe Borsci, as a herbalist, improved the recipe for a liqueur inherited from his ancestors, creating an Elixir that has remained unchanged to this day. He called it *Elisir San Marzano*, taken from the name of the family's hometown, San Marzano (Taranto, Apulia, Italy). At the end of the nineteenth century, Giuseppe Borsci's son, Antonio, took over the artisan activity and turned it into an industrial business by starting a new factory in San Marzano. Hence, in this study we conventionally consider Antonio's generation as the first one (G1) in the history of the Borscis. In 1950, Antonio Borsci's sons, Giuseppe, Pietro, Attilio and Venanzio (G2), took over the business. In 1964 they established a larger and more efficient factory, moving from San Marzano to Taranto. In the 1970s the company was incorporated into a new company (from SNC to SPA) and skilled non-family members were employed. The family firm's capital was, and still is, entirely owned by the four Borsci brothers (G3). Their sons have been working since the 1970s in the family firm and legally took over the business in 1997. They all sit on the Board of Directors. The Chairman of the Board of Directors is Egidio Borsci (Venanzio's son). In 2005, Borsci had 40 employees and annual revenues of 11 million euros. Borsci produces and/or commercialises several kinds of liqueurs and several related products such as Bon Borsci, Baba of Elisir San Marzano and Astrelio chocolate (the company 'Astrelio Maestri di Cioccolato S.p.A' was acquired in 2005). Borsci's main market is Italy, but company products are also exported to the US, Germany, Ireland, Australia and Japan.

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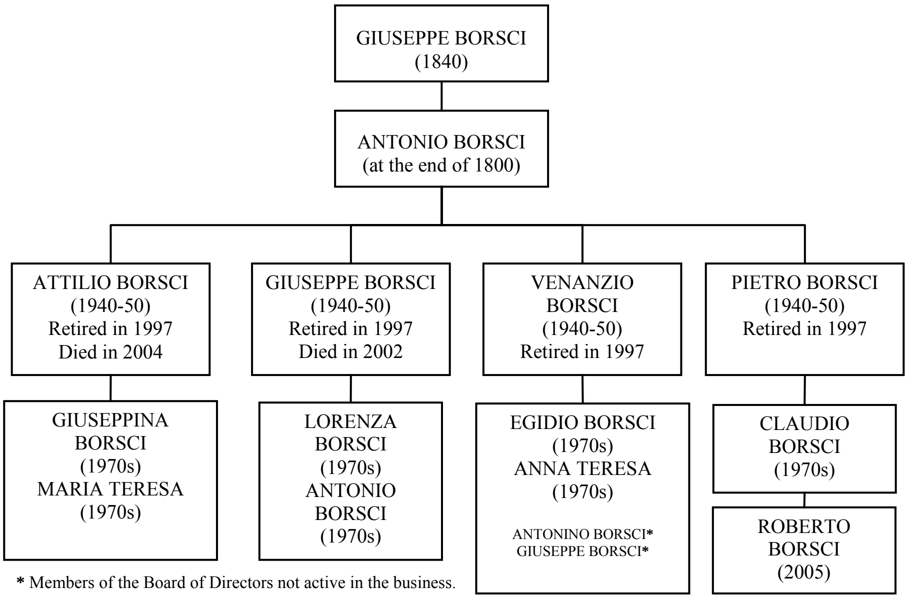
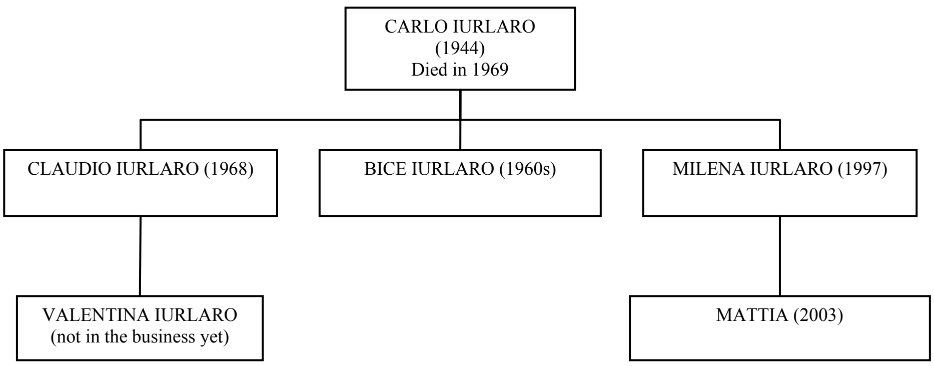


Iurlaro SA: In 1944, Carlo Iurlaro (first generation, G1) founded the wine firm "Carlo Iurlaro" in Switzerland. Since his sudden death in 1969, the firm has been run by his son, Claudio (G2). In 1975, Claudio bought the share of his sister, Milena. Claudio is currently CEO and Chairman of the Board. 70% of the capital is owned by him and 30% by his mother, Bice Iurlaro, who carries out managerial tasks (debt management) on a part-time basis. In 1997, Milena Iurlaro started working for the family firm as a part-time employee, managing Iurlaro Aziende Agricole SA. The latest generation (G3) is represented by Milena's son, Mattia, who was put in charge of Lucchini Giovanni SA and Tenuta Vallombrosa in 2003. The family firm is staffed with forty employees in production, administration, sales and vineyards. It owns 30 hectares of vineyards from which high quality wines are obtained. Cellars are located in the village of Lamone near Lugano, whereas vineyards are located in Comano (Vigneto ai Brughi), in Lamone (Tenuta San Zeno), in Vico Morcote (Castello di Morcote), in Gudo (Tenuta Terre di Gudo), in Neggio (San Domenico), and in Castelrotto (Tenuta Vallombrosa). The firm also produces olive oil, grappa and honey. The group is made up of two companies: Iurlaro Aziende Agricole SA, which is in charge of the agricultural side and Iurlaro Carlo Eredi SA, which deals with the commercial distribution of the products through a wine shop and a commercial network across Switzerland. Iurlaro products are also exported to Germany, the United Kingdom, Sweden, Russia, and the US.



Cervo SA: 'Founder1' Cervo and 'Founder2' Saccà founded the wine firm Cervo&Saccà in 19xx in Switzerland. Their activity was initially limited to purchasing wine from local producers, blending and re-selling it to restaurants and tourists. Founder1 died in 19xx and Founder2 retired a year later, in 19xx. Founder 1's sons, 'owner1', 'owner2' and 'owner3' took over the business. The

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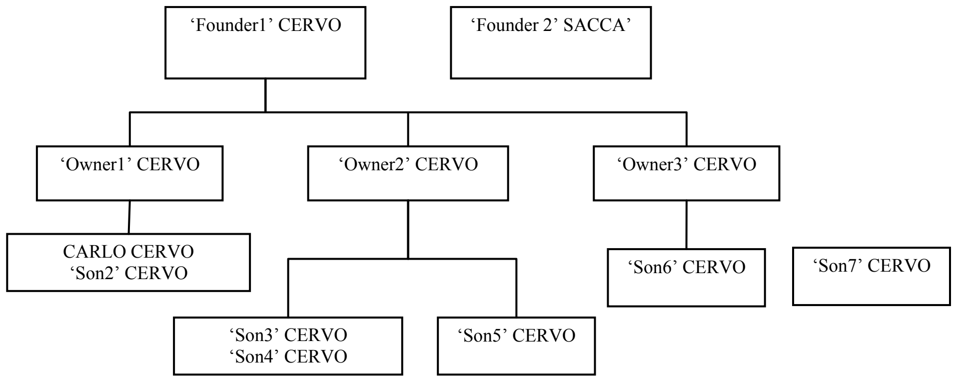
company is currently owned by the three brothers and by owner1's son, Carlo. The third generation is represented by owner1, owner2 and owner3's sons and sons-in-law. Carlo feels he belongs to the second generation and will be considered as such for the purposes of this research. The commercial distribution of products is carried out through a wine shop and a commercial network in Switzerland. Cervo products are not exported.



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