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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:

Christina Lubinski: Succession in Multi-Generational Family Firms. An Exploratory Study into the Period of Anticipatory Socialization (pages 4 -25)

Bernardo Bertoldi, Marco Giorgini, and Chiara Giachino: Evaluation Framework for the Trans-Generational Succession Process in Family Business (pages 26-44)

Matti Koiranen: Intellectual Capital and Property Rights (IPR) as the Key Asset of a Family Firm: A Case Study with an Evaluation Approach (pages 45-54)

Sari Rissanen, Anneli Hujala, Virpi Laukkanen, Merja Helisten, and Helena Taskinen: Start-Up Motivations and Growth Orientation of Owners of Family Business – A Care Entrepreneurship Approach (pages 55-73)

Jonchi Shyu and Yu-Hung Shen: How Does Family Management Affect Firm Performance: Evidence from Taiwanese Firms (pages 74-95)

Laura Broccardo: Family Versus Non Family Firms in the Luxury Yachts Sector: Strategy – Structure Combination to Manage the Performance (pages 96-125), and

E. Alan Hartman, Susan Schierstedt, and Donald Gudmundson: Family Business Governance Structures: Incidence and Effects (pages 126-139).

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SUCCESSION IN MULTI-GENERATIONAL FAMILY FIRMS. AN EXPLORATIVE STUDY INTO THE PERIOD OF ANTICIPATORY SOCIALIZATION

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Abstract

Family business scholars have argued that succession entails all actions and events that occur between generations to transfer ownership and/or management. Building on this definition, I focus explicitly on the period prior to the successor’s entering the business. I borrow the concept of “anticipatory socialization” from organizational sociologists and argue that this period has unique characteristics in multi-generational family firms mainly because of the close link between the successor’s choice of occupation and his or her choice of organization. In an explorative historical case study I investigate the unique features of anticipatory socialization in family firms. My findings include a detailed description of the information channels and social capital transfers during that period as well as an assessment of the role of narrations, symbolic objects, and formal and informal education. In the last part of the paper, I link these findings to Pierre Bourdieu’s capital theory, which allows for a more systematic approach to anticipatory socialization in family business.

Keywords: Succession, socialization, entrepreneurship, values, intergenerational transfer.

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INTRODUCTION[1]

For several decades, scholars have dealt with the complex process of management succession, a problem of particular relevance to family firms. Given that family-owned and -controlled businesses account for a considerable percentage of the corporate landscape worldwide (La Porta, Lopez-de-Silanes et al. 1999; Morck 2005; Franks, Mayer et al. 2010) and that many of them pursue a dynastic motive (Casson 2000), family succession is a central topic of corporate governance research.

The aim of this paper is to explore the period of "anticipatory socialization" in family businesses as a part of the succession process. I define socialization as "the inculcation of the skills and attitudes necessary for playing given social roles" (Mayer 1970) and anticipatory socialization as the time period prior to an individual's joining an organization. I argue that anticipatory socialization has distinctive characteristics in multi-generational family businesses because socialization often occurs with the one existing family business in mind. Potential successors have more access to information about this particular family firm, and other family members can actively introduce them to the family-firm-environment. Moreover, members of the family business and even outsiders know about the individual's potential future role, which influences their relationship with the possible successor. Important knowledge and value transfers take place long before the successor decides to actually enter the business. While organizational sociologist show that most individuals first select an occupation and then an organization to join (Crites 1969; Jablin 1985; Jablin 2001), I argue that multi-generational family firms provide a distinct setting. If family members decide for succession, they simultaneoulsy opt for an entrepreneurial career and the family firm as organization to join.

Since the outset of family business studies scholars have dealt with the succession process both from a theoretical and an empirical perspective (Lansberg 1988; Handler 1989; Handler 1990; Aronoff 1998; Dyer and Sánchez 1998; Brockhaus 2004; Sharma 2004). As a consequence, several theoretical models are available that distinguish different phases in family firm's succession. Robert Floeren sees a "pre-succession," a "succession," and a "post-succession" period; Louise Cadieux identifies "initiation," "integration," "joint-reign," and "withdrawal" as the basic steps of every succession process (Floeren 2002; Cadieux 2007).

Almost all of these models follow either a strict or a loose conception of succession. Strictly defined, succession describes the time period from the successor's decision to enter the business to the predecessor's withdrawal (Pfannenschwarz 2006; Cadieux 2007). This approach is often taken in empirical studies because it clearly defines a start and an end point. Following a broader definition, succession means all "actions, events, and organizational mechanisms by which leadership at the top of the firm, and often ownership, are transferred" (Le Breton-Miller, Miller et al. 2004; Lambrecht 2005). The broad understanding embraces a much longer time period that is less clearly defined. Therefore, it is less convenient for empirical analyses.

[1] I would like to thank two anonymous reviewers, my colleagues Dr. Jan Logemann and Dr. Anna Spadavecchia and the participants of research seminars at the University of Goettingen, Germany, and the University of Reading, U.K., for their constructive criticism. I am deeply indebted to Peter Bagel, Dr. Ida Bagel, Peter Hassel and Luise Limberg for their enduring cooperation, thoughtful comments and open participation in interviews.

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Despite these difficulties, this paper is based on the broad model. It argues that succession is a lengthy, evolutionary process that embraces a series of knowledge transfers and learning processes. While most of the succession literature suggests that the entry of the successor into the business is one of the most important stages in the family succession process, I focus on the period leading up to the entering. This "pre-business" stage has before been described as "unplanned, passive orientation and conditioning" (Longenecker and Schoen 1978). In contrast, I argue that the process is neither necessarily unplanned nor passive, but is instead actively (if not always consciously) shaped by the actors involved. More importantly, relevant knowledge transfers occur long before the successor enters the business, and even before he takes the conscious decision to do so. One could argue that many scholars so far have limited themselves to the "tip of the succession iceberg." Although the importance of a broader understanding of succession has been highlighted on a theoretical level (Kets de Vries 1996; Miller, Steier et al. 2003; Lambrecht 2005), we know little about the "practices of the family business" (Howorth, Rose et al. 2006).

Organizational sociologists describe the period prior to joining any organization as anticipatory socialization (Jablin 2001). They argue that this process starts early in childhood (Crites 1969). It has been further divided into two sub-periods, vocational anticipatory socialization and organizational anticipatory socialization (Jablin 1985; Jablin 2001). The former describes the process of selecting a career or occupation, the latter the process of selecting an organization to join. In most organizations, individuals make a vocational choice before they decide which organization to join. Consciously and unconsciously, they accumulate occupational information from their environment, most importantly from family members, educational institutions, part-time job experiences, peers, and the media (Jablin 2001). The literature sees family members and in particular parents as very influential in the career choices of their children (Sebald 1986; Bigelow, Tesson et al. 1996).

Within the distinctive setting of multi-generational family firms, anticipatory socialization has unique characteristics because the environment that provides information is geared towards the family business. Socialization often occurs with the one specific firm in mind. Considering a willing successor, vocational anticipatory socialization, or the choice of career, and organizational anticipatory socialization, or the choice of organization to join, are very likely to overlap. On the other hand, parents and other family members tend to be active in introducing younger family members to the family-firm-environment. Therefore, the process of anticipatory socialization has distinctive features that are shaped by the family dynamics and the dynastic motive of the family (Casson 1999; Aldrich and Cliff 2003; Heck, Danes et al. 2006). Even if successors are not preselected at birth or decide against an involvement in the family firm, the influences between the generations in terms of getting acquainted with a potential social role remain important for the individuals' life choices. It is, therefore, interesting to ask how values, behavioral norms and patterns of cognition were transmitted across generations.

My approach thus builds on and broadens the scope of family business succession studies. I draw on the work of scholars that have investigated the patterns of succession and the problems of passage that plague succession (Lansberg 1988; Handler 1989; Gersick, Davis et al. 1997; Aronoff 1998; Cabrera-Suárez, Saá-Pérez et al. 2001; Floeren 2002; Brockhaus 2004). Scholars have argued that the success of succeeding family members is partly based on the success of the knowledge and social capital transfer from their predecessors (Cabrera-Suárez, Saá-Pérez et al. 2001; Steier 2001). However, only few contributions so far deal with the transfers that occur prior to the successor's decision to entering the business (García-Álvarez, López-Sintas et al. 2002; Lambrecht 2005). Miller et al. show that in problematic successions, there is often an inappropriate relationship between the past and the future. According to their results, some successors are overly dependent on their predecessors and attach too much importance to the past, others reject the past completely, and a third type is insecure as a leader because of an incongruous blending of past and present. Miller et al. relate their findings to parent-child interactions that occur long before the transfer of power and thereby highlight the importance of socialization (Kets de Vries 1996; Miller, Steier et al. 2003). By focusing on the entrepreneur's upbringing within long-established business families, I hope to also build a bridge between entrepreneurship and family business research. Despite common interests, there have been few attempts so far to combine both fields of study (Dyer and Handler 1994; Dyer 2003). My focus on anticipatory succession helps illuminating the entrepreneur's early experiences in his or her family of origin and the role of family members in the firm – both intersection points between family business studies and entrepreneurship.

Empirically, the paper builds on the qualitative case study of a German family business in its seventh generation. As a business historian, I suggest that the historical analysis provided here can help to better understand the complex topic of succession and the particularities of anticipatory socialization in family businesses. Using archival sources and biographical interviews, I investigate different successions and focus in particular on the continuities and changes from the end of WW II to the present day. The empirical analysis offers deep insights into the topic of anticipatory socialization. In the last section of the article, I relate these findings to a theoretical model, which helps addressing the topic of anticipatory socialization more systematically. Although tentative, this explorative approach may point scholars and consultants to new questions and themes in their work.

A QUALITATIVE CASE-STUDY: THE PRINTING AND PUBLISHING BUSINESS BAGEL

Anticipatory socialization is a new field in family business studies. One appropriate method for the investigation of new research fields are case studies, which allow studying the phenomenon within its real-life context. The strength of the case study methodology is that it allows embracing the complexity of the topic and that it combines different methods of accessing information (Eisenhardt 1989; Yin 2009). In this paper I use a wide range of sources – business files, private correspondence, interviews with family members and employees of the business – to study one selected family firm over time and from different perspectives. The selected case study is the German printing and publishing business Bagel based in Duesseldorf, which I consider a *revelatory case* for the topic of anticipatory socialization. Due to an extensive family and business archive, the case offers deep insights into the period of anticipatory socialization and helps to uncover the phenomenon, which in most cases is little documented and inaccessible to family business scholars. As there is no theory for anticipatory socialization in family businesses so far and no data for larger comparisons, the qualitative approach of this paper aims at drawing cautious conclusions from the case, which may then be tested in larger surveys. The results are explorative and meant to develop hypotheses and propositions for further inquiry.

The printing and publishing business Bagel has been family-owned and -controlled for over 200 years, and seven generations of the Bagel family have worked or still work in the firm. Moreover, the company stands out for its rich family and business archive holding both business files and letters as well as other personal documents, that allow for valuable insights in the process of anticipatory socialization. The data was analyzed in a two-stage process. In the first stage, the documents were reviewed without presumptions, classified and finally ordered chronologically and by key topics. In the second stage, two family members and three employees were asked to participate in narrative interviews with the author. The five interviews with the current family business entrepreneur, his designated female successor and three longstanding employees started with a biographical section. This was followed by open questions concerning the succession process including preparations, training and the actual handing over of the business. The interviews were tape recorded and transcribed for post interview analysis. Each interview was reviewed by the author, and then discussed with an interdisciplinary team of colleagues.[2]

Founded in 1801, the Bagel business is one of the rare firms having been able to celebrate a 200th anniversary in 2001. The Bagel family does not only hold the majority of shares to this day but also provides the CEO of the business. According to Mark Casson's system of classification, it would be considered a family-owned and -controlled business (Casson 1999). Today, the business group has around 2,000 employees. It does not reveal its annual turnover.

The company was founded by Johann Bagel as a small bookbindery in Wesel, near Duesseldorf in the West of Germany. He expanded gradually into paper manufacturing and bookselling (Barleben 1951). His eldest son August was trained as a bookseller by a business partner of Johann Bagel in Halle (Hillen 2003). He took over the father's business and transformed the small craft shop into an industrial printing and publishing company. In 1878, August moved the firm from Wesel to the regional and fast growing capital Duesseldorf. Here his son August (II) built an important social network connecting the firm to local heavy industry. The liaison was confirmed by the marriage between his sister Elise Cornelie Mathilde and the local steel entrepreneur Karl Hugo Lueg. At August Bagel's death in 1916, his son Friedrich, who had worked alongside his father for twenty years, took over the business. He ensured the firm's survival during WW I and the difficult interwar-period in Germany. At his death in 1936, he handed the business over to his two sons, Carl-August and Gerd (Lubinski 2010a). Both of them married into entrepreneurial circles, Gerd to the daughter of the textile manufacturer Johann Scheidt (Soénius 2000) and Carl-August to an offspring of the famous Henkel family, manufacturer of detergents and other consumer products (Feldenkirchen and Hilger 2001).

After the end of WW II, the ownership structure of Bagel can be classified as a cousin-consortium (Gersick, Davis et al. 1997). The two family branches – Gerd and

[2] I would like to thank my colleagues at the graduate school "Generationengeschichte. Generationelle Dynamik und historischer Wandel im 19. und 20. Jahrhundert" Christina May, Alexandra Retkowski, Eva-Maria Silies, and Nadine Wagener-Boeck for their commitment and comments.

Carl-August – held equal shares, but only one member represented the family in business and was responsible for its strategic leadership.

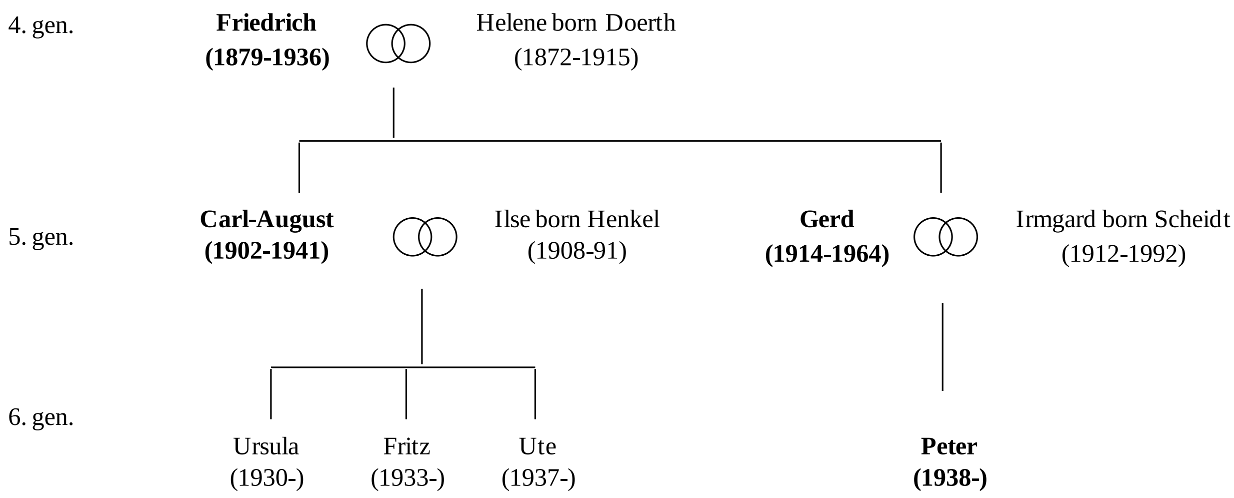

Figure 1. Extract From the Bagel Family Lineage.

The legal form of the business mirrored this arrangement. Bagel was a *Kommanditgesellschaft*, or limited partnership (Guinnane, Harris et al. 2007; Lamoreaux 2009). The German *Kommanditgesellschaft* is composed of two different types of shareholders. The general partner, or *Komplementaer*, acts as manager of the firm and has to personally bear unlimited liability. The limited partners, or *Kommanditisten*, fulfill the role of investors and are excluded from corporate management. They can only be held liable for their fixed financial contribution to the partnership. This legal form was common in German family firms after WW II (Lubinski 2010a; Lubinski 2010b). The *Kommanditgesellschaft* as an unlimited liability company allowed firms to realize tax advantages. It was less strictly regulated than the German stock corporation and offered greater contractual flexibility. Moreover, it provided two different kinds of shareholder roles, a managing and a non-managing shareholder. This distinction was important for the corporate and family governance of many family businesses (Jaskiewicz, Schiereck et al. 2006) and therefore made the limited partnership an attractive legal form for family firms.

After the death of Carl-August Bagel during the war, his brother Gerd (1914-1964) served as sole managing shareholder of the firm. Like his ancestors before him, he made careful preparations for succession. One immediate trigger for Gerd's detailed succession planning was the fact that he suffered from heart disease and experienced a severe heart attack in 1959 (RWWA Bagel archives 127-6). This near-death experience put leadership succession on the entrepreneur's agenda (Lansberg 1988). Afterwards, Gerd Bagel freed himself from much of the day-to-day work by delegating to external managers but carefully planned the education of his only son Peter (born in 1938).

In 1958, Gerd Bagel changed the legal form of the business to a *GmbH & Co. Kommanditgesellschaft*, replacing the personally liable entrepreneur with a private limited liability company. A major consideration behind this change was to free the company from any single entrepreneur, his personal health or capabilities. If Gerd at any point in time would be unable to perform his duties, the external managers could replace him temporarily and the business could continue without major turmoil. In theory, the new legal structure allowed for limited liability of all owners. However, the Bagel family continued to have a personally liable managing-owner who proved his commitment by bearing the risk of unlimited liability.

Grooming for Succession: Anticipatory Socialization in the Post-WW II Period

Gerd Bagel's attempts to legally prepare for a smooth transition were by no means the first elements of the succession process. Gerd undoubtedly made an early start in grooming his only son Peter as primary heir for a leading role in the family business. Many important knowledge and value transfers took place long before Peter actually entered the family business during the period of anticipatory socialization. Theories that consider succession in a narrow sense – from the entering of the successor to the withdrawal of the predecessor – would fail to recognize most of these transfers.

Growing up in an entrepreneurial environment, Peter Bagel got acquainted with entrepreneurship early on. Not only his father was a family business entrepreneur in the fifth generation, but his mother also came from a traditional business family, the Scheidt family of Kettwig, active in the textile industry (Soénius 2000). Gerd Bagel tried to teach his son a sense of business. Whereas most of the socialization within the family leaves no written records, some of Gerd's attempts have survived in the lively correspondence between father and son. As typical multi-subject letters, these documents regularly combined personal and business commentaries (Boyce 2010). Using this form of communication, Gerd regularly encouraged his son to take on entrepreneurial challenges. When Peter visited a Swiss boarding school in 1956, he started selling products with a hawker's tray in an attempt to earn some extra pocket money – with little success. When he realized his misfortune, his father advised him that it was always hard to give up on something, after having invested that much time and effort. However, he pointed out, sometimes this was a necessary choice. "I especially appreciate that you came to this decision on your own account," he commended his offspring (RWWA Bagel archives 92-3, this and all following quotations from archive materials and interviews have been translated by the author). Independence and decisiveness were some of the virtues that Gerd tried to transmit to his son because he considered them crucial for an entrepreneurial career.

With the support and the advice of his father, Peter developed a work profile which was a perfect fit for a leading position within the family business. The choice for an entrepreneurial career, or vocational anticipatory socialization, and the choice for the family business Bagel, or organizational anticipatory socialization, clearly overlapped. The selection of educational institutions not only prepared him for a career as manager but also related strongly to the printing and publishing business that the Bagels were committed to. After leaving the Swiss boarding school and doing his obligatory service with the German military, Peter Bagel attended the London School of Printing and Graphic Arts. He acquired his technical and vocational skills as a printer, in addition to training in Business Administration and Management. His father played an active role in arranging various international internships for his son with clients and other business relations of the Bagel Group (RWWA Bagel archives 234-3). This use of business networks and trustworthy partners was a family tradition that earlier successions within the Bagel family had similarly relied on (Barleben 1951). Peter got to know important business partners of Bagel in Germany and abroad during this time period.

Peter's international formation in Switzerland, the U.K., and the U.S.A. required his absence from Germany for a considerable length of time. "He was gone a lot", one female employee remembers (interview with Luise Limberg). However, he still managed to stay in regular contact with the family business' employees. This is another element of anticipatory socialization that distinguished family firms from other organizations. One noteworthy, less expected link between the designated successor and the business was the chief secretary of Bagel. When Peter moved to the Swiss school at the age of 16, the secretary regularly provided him with pictures and news about the Bagel business. She used her letters to keep him informed about the company, telling him how slowly certain construction works were proceeding or sending him pictures of Bagel's exhibition stands (RWWA Bagel archives 92-3). Peter was also in frequent contact with the external managers at Bagel. His father attached great importance to these relationships and made sure that Peter participated in anniversaries or important meetings. When Gerd invited the managers to his house for dinner at the occasion of his 25th work anniversary in the firm in 1962, he demanded that Peter come over from London and stated that otherwise, "I would need to take steps because your participation is of great importance to me" (RWWA Bagel archives 234-3). However, the process of grooming Peter for succession is only half of the story. At the same time, the sources show that the socialization and formation process strongly impacted on the business culture, which is highly relevant for the legitimization of the successor. The employees knew Peter as the only son of the boss and they had ample access to information about his education and training. In 1961, the company's internal journal published an article about the visit of a group of students from the London School of Printing, which Peter had been attending at that time. The journal described the excellent and innovative training the students received there in order to prepare them for leading management positions within the printing industry. The article was complemented by a photograph with the caption "we see him [author's note: Peter Bagel] in a small technical discussion with his student colleagues" (RWWA Bagel archives 33-8).

Source: Company journal Schwarz auf Weiß 20 (1961), p.3, RWWA Bagel archives 33-8. Courtesy of Bagel.

Figure 2. Picture of the Successor in the Company's Journal, 1961.

The printing business has its roots in craftsmanship and it was extremely important for the employees to note that the junior was learning about all the aspects of the trade (interview with Peter Hassel). The article and picture communicated that Peter was receiving an outstanding, but also practical education at an excellent school and could hold technical discussions with the European elite in printing. The accompanying picture underlined this message as it shows Peter standing next to a huge offset-machine representing the latest technological innovation in printing.

For many family businesses, craftsmanship is extremely important, especially in quality industries (Miller and Le Breton-Miller 2005). The act of communicating Peter's craft skills was a way of gaining acceptance because his competence was highly appreciated in the context of this specific family firm. His knowledge and skills legitimized Peter's position as successor. At the same time, craftsmanship was an essential part of the Bagel's family culture as well. Gerd tried to familiarize his son with the family's craft tradition. While Peter studied in the United States to receive an MBA at Wharton, his father sent him a book that recalled the fine traditions of printing in the nineteenth century, used the traditional technical terms and explained handicraft processes (Metzel 1935). In Gerd's accompanying letter, he motivated his son to read the book: "Take this book if economics and marketing trouble you too much, and remember your ancestors" (RWWA Bagel archives 234-3).

A further element of the connection of family and business is the family name which represents the family's commitment and the historical co-evolution of family and business. The name Bagel is of great symbolic value within the business culture and employees and family members, alike, pronounce it reverentially in French. In the same manner, the bearing and transferring of traditional first names was deeply anchored in the family culture. Peter Bagel bore the second name of the founder, August, and his father reminded him to sign official documents with his full name: "Remember signing 'Peter August Bagel' because all documents are filled in with this name. If your passport says only Peter Bagel, your real baptismal name is surely better" (RWWA Bagel archives 234-3, 1961). The naming is important to make the genealogy understandable and to ensure every individual a place in the family chain. Not only does it offer a connection between the past, present and future, but it also underlines the generational role and task of every family member.

Knowledge and Values: The Role of Narrations and "Things" in Anticipatory Socialization

At the sudden death of his father in 1964, Peter Bagel took over the business that he had been trained for. He even interrupted his MBA program in the United States to return to the family firm immediately. Despite his young age, he quickly became a successful entrepreneur and still manages the firm to this very day.

While Peter's anticipatory socialization phase was shaped by his father's determination to give him the most adequate education for his role as successor, the following succession process developed in a very different manner. In an evolutionary process during the 1960s and 70s, new norms and ideals for child upbringing and education profoundly affected the period of anticipatory socialization in family businesses (Ecarius 2007; Nave-Herz 2007). Peter was less inclined to actively guide or limit the career choices of his three children. However, the process of anticipatory socialization still entailed a series of explicit and implicit knowledge transfers that occurred long before his successor entered the business.

Peter gave his three children the autonomy to freely choose a career. However, he made several efforts to induct the next generation to the common history of the family and the business. Like his father, he used narrations and objects aiming at introducing the next generation to the long-standing history of which they were a part. At a family gathering in 1976, the year of the company's 175th anniversary, Peter Bagel gave a commemorative speech to his family. In the intimate setting of a family lunch, he tried to trigger a sense of belonging and pride in his children. While talking to the entire family, he explicitly addressed his words to his children, three daughters under the age of twelve. The narration was not only addressed to the youngest generation but also resembled a children's story in style and structure. It started:

> "Dear Family, dear Children,
>
> by now Johann Bagel had been in Wesel for quite some time and the idea to begin his own business was on his mind. After several years of being on his travels through Europe and even to St Petersburg, he wanted to get married and to settle down." (This and all following quotations from the speech: RWWA Bagel archives 236-2).

Starting with the founding of the company, the speech followed the genealogy of the Bagel's entrepreneurs. Every actor was introduced as part of the family chain. Peter not only underlined every protagonist's role in the multi-generational business but also clarified every actor's relation to the youngest generation. He said: "Fritz, my grandfather, your great-grandfather," or "He used to like hunting, just like my father, your grandfather, and me." Thereby, the otherwise anonymous actors became immediately part of the children's individual life story. The speech dealt with the long, intertwined history of the family and the business. It was written in simple language, and aimed to incite the children's curiosity. The story eventually climaxed as Peter Bagel concluded:

> "175 years, six generations of Bagels, a long time full of events of joy and sorrow. As much as the Bagels and their wives have been diverse, all generations have one thing in common, and that is the devotion to the craft, the firm embedding in the family and in the bourgeoisie. […] Diligence, labor and competence and the passion for the beautiful things in life combine evenly into our existence and that of our ancestors."

Peter Bagel then had a surprise for his audience and continued: "As a reminder of this day, I have a special gift for you. It is a tin. In life there are plenty of things that you may want to preserve. That means, in the word's original sense, that you owe them attention that you feel obliged to take care of them. […] In grand museums you often find splendid tins of high craftsmanship. Your tin stands for craft, tradition, and devotion to the beauty. Bind in it the spirit of your ancestors. It may give you strength in your seeing."

The tin which Peter handed over to his children was introduced as an instrument to preserve and protect something meaningful. In the interview with the author Peter Bagel explained his intention to find a unique object for that occasion. He said about

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the tin: “And if it stays in the family and the next ask: Where did you get the tin from, daddy? − that’s what it is meant for” (interview with Peter Bagel). In his rhetorical question Peter draws the picture of a child asking his father (“daddy”) despite the fact that he has three daughters. This may either reflect his own experience with his father or may suggest that he considered a male successor the norm independently of his own situation. The fact that gender roles in family firms were changing is, however, evident in the fact that Peter’s youngest daughter, Ida Bagel, succeeded him as managing owner. She took over the running of the business in mid-2009. Ida Bagel holds a PhD in economics and worked for PricewaterhouseCoopers prior to joining the family businesses. She still owns the tin that she received as a child during the family gathering. In the interview, she said about the item: “It was meant to be an object to remember that time”, and she explained that also her grandmother used to give little presents to the children on the occasion of family celebrations (interview with Dr. Ida Bagel).

Private. Courtesy of Bagel.

Figure 3. The Bagel Family Tin.

Narrations and objects are important elements of the Bagel family and business culture that have developed evolutionary over time. Ida pointed out that there is a family tradition in giving small presents at special occasions. However, the perception of these acts has certainly changed profoundly. During the late twentieth century, individuals were increasingly required to construct their own lives; and family traditions as well as relations based on authority have decreased in meaning. The effects of such a strong family culture are ambivalent. On the one hand, it might help to smooth the difficult transition period of succession and lay the ground for effective knowledge transfers. On the other hand, it can also be felt as a burden. Ida Bagel said that she always perceived her entry into the family business as a positive challenge. However, she further elaborated: “That’s always the problem with inheriting something. You do not want to be guided by it in your life choices” (interview with Dr. Ida Bagel). Ida Bagel is well aware of the feeling of boundaries and limitations that many family business members express when confronted with the choice of entering the business.

DISCUSSION: ANTICIPATORY SOCIALIZATION AND CAPITAL TRANSFERS DURING SUCCESSION

The Bagel case study is historically contingent and can only be understood within the specific time context it occurred in. It is also highly exceptional because of the long tradition of the firm and the availability of many different sources mirroring the process of anticipatory socialization. The problem, however, is that the results so far are merely anecdotal. As a next step, the case study shall be linked to a systematic theoretical framework that might translate to other national and historical settings. This is meant to be a first step towards a broader, more general discussion about anticipatory socialization in business families.

I suggest that Pierre Bourdieu’s capital theory might serve this purpose. It highlights areas of family business research that have so far been rather neglected and offers a clear language to describe them. The French sociologist Pierre Bourdieu understands the family as one reason why some children grow up with a competitive advantage: “Those who talk of equality of opportunities forget that social games […] are not fair games. Without being, strictly speaking, rigged, the competition resembles a handicap race that has lasted for generations or games in which each player has the positive or negative score of all those who preceded him, that is the cumulated scores of all his ancestors” (Bourdieu 2000). Based on this argument, Bourdieu’s theory aims to explain enduring social inequalities in society. However, I argue that it can also enrich family business research in providing a more detailed and theoretically grounded approach to the topic of socialization.

According to Bourdieu, three different forms of capital are bequeathed between generations that he calls economic, social, and cultural capital. Not only the amount but also the composition of an individual’s total capital is responsible for a person’s positioning in society.

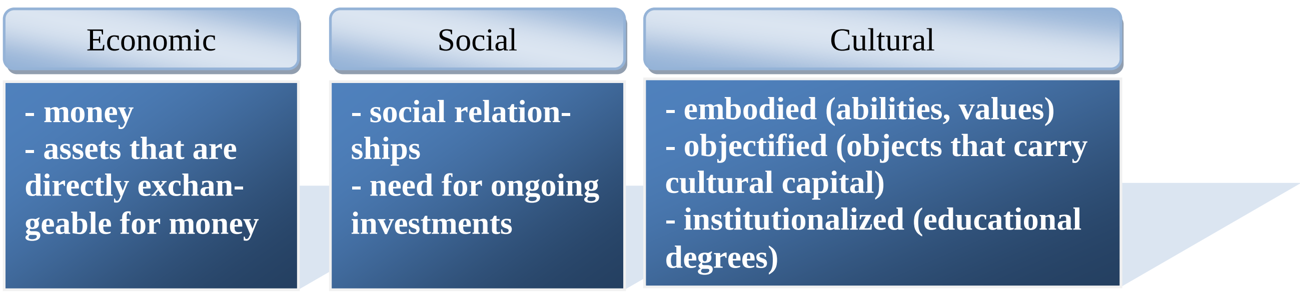

Figure 4. Forms of capital.

In his theory, the term economic capital stands for money and other assets that can be directly exchanged for money in a market economy (Bourdieu 1997). Social capital refers to social relationships and connections which help to gain and to sustain a particular position in society. Bourdieu takes renowned families as one telling example for social capital accumulation. Instituted and guaranteed by the application of the family name, family members have access to the group’s social capital. At the same time, Bourdieu also describes the need for ongoing investments in order to reproduce lasting, useful relationships.

Most innovative is Bourdieu's analysis of cultural capital that refers to the values and abilities of a human being. He divides it further into embodied, objectified and institutionalized cultural capital. In its embodied state, cultural capital means abilities and values that someone learns and incorporates especially during childhood and adolescence. It embraces specific ways to express oneself, tacit understandings, taste, or a value system. The accumulation of this form of capital presupposes personal costs such as time and privation. Objectified cultural capital is closely connected to the embodied kind. It refers to objects that can carry cultural capital, such as paintings, instruments or − most importantly for this paper − a family business. Although the legal property of these objects is transferable like money, their symbolic appropriation again presupposes embodied cultural capital. Finally, institutionalized cultural capital, such as a degree from a top-level university, exists in the form of legally certified qualifications with signaling function. Institutionalizing cultural capital is a way to achieve acknowledgement for it in society. Once officially recognized, cultural capital in this form will not be easily called into question. It helps to legitimize one's position.

Economic, cultural and social capitals are partly interchangeable at certain costs. Whereas economic capital gives immediate access to some goods and services, others presuppose social and cultural capital. Leadership succession is a good example of the strategic importance of social and cultural capital as it depends on social connections and cultural understandings. This is especially true for family companies in which these transfers have a unique, family-based rationality. Anticipatory socialization can well be described as the transfer of economic, social, and cultural capital.

The most common understanding of succession is that it is a transfer of economic capital in the form of money, shares, or real estate. The case study, however, additionally gave many examples of social capital transfers during anticipatory socialization. Peter Bagel was introduced to an existing network of social contacts. On the one hand this entailed social capital to business partners and colleagues; on the other hand the designated successor was introduced to important members of the family firms, such as high-ranking managers but also information brokers or networkers, like the firm's secretary. The latter contacts were as significant as the former because they shaped and legitimized the succession process. The acquaintance with important actors both inside and outside the family firm should be noted as a potential strategic advantage resulting from family involvement. The early transfer of social capital is important in order to foster entrepreneurial behavior. It also allows the successor to build onto an already existing network of connections. These findings relate to network theory and to the shift in entrepreneurship research from a single actor point of view to the idea of venture teams (Aldrich and Zimmer 1986; de Carolis and Saparito 2006). With regard to family businesses, some authors have even identified "interorganizational familiness" as a competitive advantage of family companies based on community-level social capital (Lester and Canella Jr. 2006).

The transfer of cultural capital is more difficult to pin down in sources but no less important. Bourdieu's more detailed differentiation between embodied, objectified and institutionalized cultural capital helps to systematically address the issue. Both successions in the case study have been shaped by embodied cultural capital. These are often unconscious or very personnel transfers, which started early in childhood. The transfer of embodied cultural capital in the first succession embraced values, such as canniness, as well as the appreciation for craftsmanship that Gerd introduced to his son. Having embodied this cultural capital, Peter Bagel made a different but related effort to introduce his children to the family tradition. In the context of changing up-bringing styles and a growing appreciation for children's autonomous decisions, he used stories and narratives instead of more concrete training strategies implied by authority. This, however, strengthens the argument that the transfer of tacit knowledge in family companies is of great relevance, which can be linked to the knowledge-based view of the family firm (Cabrera-Suárez, Saá-Pérez et al. 2001). The direct, trust-based contact between the source and the recipient, and the different occasions and means to design an evolutionary transfer process of knowledge and tacit understandings, seem unique to some of the most successful multi-generation family businesses.

Institutionalized cultural capital refers to educational degrees and formal training and is closely linked to the embodied kind. The case of Bagel showed that it mattered a great deal to the family and the employees that Peter acquired and proved his level of skill at high-class international educational centers. The members of the family business learnt at different points in time that the designated successor was familiar with the craft tradition and visited some of the most renowned institutions for a management education. Proving the qualification of a family successor and thereby legitimizing the selection is essential for his or her acceptance within the business.

While successor's education is already an important topic of family business research, the meaning of objects or objectified cultural capital has been little discussed so far and should explicitly be highlighted. Objects, such as the family tin in this case study, are given meaning through stories and narrations. Because everybody is familiar with these stories, they can be represented in objects whose value cannot be appreciated by outsiders. Even the family business itself can be understood as objectified cultural capital. As it has developed in close connection to the family, it assembles meaning beyond its pure economic value. In order to fully appreciate it, embodied cultural capital in the form of knowledge and values is required. This relates to the theory of psychological ownership, which has been discussed in family business studies (Pierce, Kostova et al. 2001; Hall 2005; Ikaevalko, Pihkala et al. 2007; Pierce and Jussila 2010).

In the Bagel case study, the family business, as objectified cultural capital, is represented by a "family tin", which should ideally be passed on from one generation to the next. The choice of this object is telling. Firstly, and very concretely, it serves to protect something meaningful like a treasure chest would. The children decide what to put inside it and they, therefore, prove their appreciation for it. Moreover, Bourdieu suggests that in order for a family to perpetuate itself, it is "engaged in an effort to perpetuate its frontiers and oriented towards idealization of the interior as sacred." (Bourdieu 1996). This idea is captured by the metaphor of the family tin, which separates something meaningful from the external world. Secondly, the family members call the object a "tin" (German: "Dose") which evokes associations about the conserving of food. Putting something inside keeps it in its current status quo. Thirdly, the tin reminds its owner of Peter Bagel's narration at the family-lunch when he introduced his children to the common family and business history, the associated values, and the role of the next generation in it. It, therefore, may give rise to feelings of both belonging and possibly restraint. Fourthly, the tin is the handiwork of a goldsmith and Peter

Bagel explained: “I wanted it to be a craft, something haptic” (interview with Peter Bagel), as the tin stands for his appreciation of craftsmanship. Here we find a close link to the embodied cultural capital, which can only be understood by an insider. Lastly, Peter Bagel hopes that future generations (“the next”) ask questions about the tin so that it provides an occasion to tell the family story and, therefore, to bear it in remembrance. For a better understanding of objectified cultural capital it seems promising to link family business research more closely to the work of cultural anthropologists that have for long discussed the symbolic value and “life history” of objects (Appadurai 1986; Langbein 2002).

Based on the explorative qualitative case study presented here, I conclude that the period of anticipatory socialization is shaped by the transfer of all three forms of capital: economic, social, and cultural. The following figure summarizes fields of study that help to better understand anticipatory socialization.

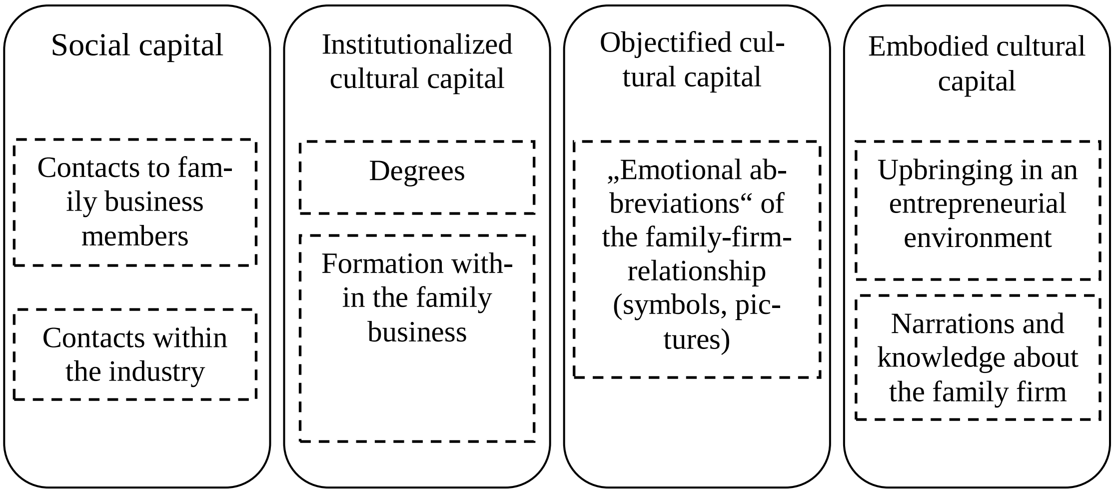

Figure 5. Capital Transfers During Succession.

Those early learning processes are a crucial element of succession because they lead to the development of collective beliefs. Looking more closely at the different forms of capital during anticipatory socialization can help to better define the peculiarities, risks and opportunities of the family firm. In multi-generational family firms, anticipatory socialization often relates to prior experiences in the family firm and to family values that developed over a long period of time. This suggests that succession is not a temporally discreet process that family firms repeat once in every generation. It is better understood as a perpetually winding “spiral” throughout the life cycle of the family firm, where one succession builds on the perception of individuals about earlier experiences. It includes elements that can only be fully appreciated as a part of the evolutionary development of the family and business culture. If lasting and successful, this culture incorporates strategies for dealing with transfers of knowledge and capital beyond a single, specific succession process (Lambrecht 2005; Lambrecht and Donckels 2006).

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CONCLUSION

The process of anticipatory socialization is of great relevance for entrepreneurship and family business studies. Particularly in long-established family businesses, it has some noticeable characteristics: potential successors know the business long before entering into it. Vocational anticipatory socialization, or the choice of career, and organizational anticipatory socialization, or the choice of organization, usually overlap. This adds to the complexity of family business succession but might also be interpreted as an opportunity for this specific form of organization.

The historical case study emphasized the importance of the period of anticipatory socialization for succession. It highlighted that anticipatory socialization was directed towards the family business and shaped by the family's prior succession experiences. It entailed different forms of transfer, which were classified into economic, social, and cultural capital transfers. The latter can be further differentiated in embodied, institutionalized and objectified cultural capital. The paper suggests taking all of these transfers into account and combining them in an integrated succession model.

The case study, although idiosyncratic, helped to discuss these capital transmissions further. Concerning social capital the empirical evidence showed that contacts within the industry and among colleagues were one important aspect. Furthermore, Peter Bagel got acquainted with members of the family business on all levels of the organizational hierarchy. This process of embedding the successor in the business culture early can certainly help to smooth the succession process. In combination with institutionalized cultural capital it legitimized the successor's taking over. Official degrees from renowned educational institutions and a formation with clear links to the family firm helped Peter Bagel to demonstrate his skills to the outside world.

Embodied cultural capital resulted from the upbringing in an entrepreneurial environment and included the transfer of values and beliefs, which are fundamentally important for the long-term co-evolution of family and firm. The case also gave an excellent example for the importance of objectified cultural capital that can be interpreted as an emotional abbreviation for the long-term relationship between the family and the firm. The Bagel family tin symbolized the traditional family business. Understanding its emotional value requested embodied cultural capital that had to be accumulated in childhood and adolescence. Given that many entrepreneurial families possess symbolic objects and given that the family business itself can be interpreted as objectified cultural capital, it would certainly be worthwhile to link family business studies to the work by cultural anthropologists about the meaning and life histories of things.

The different capital transfers are hard to pin down in a fixed time frame because they often build on the experience and perception of earlier succession processes. The case study supports the argument that succession is not a one-time event but rather a continuous transfer process. Building on the theoretical framework presented here, one hypothesis is that especially cultural capital can only be transferred in a lifelong, continuing learning process. Embodied cultural capital is highly relevant for the appreciation of ownership but presupposes time and privation. It is also particularly hard to capture in research. Despite their importance, many of these intergenerational transfers remain hidden because they are largely unconscious and often happen early in childhood and adolescence.

Precisely because these transfers are often hidden and unconscious, further studies into the period of anticipatory socialization are necessary and have implications for both family business scholars and practitioners. Raising entrepreneurs' awareness for cultural and social capital transfers can help to smooth succession processes and avoid typical pitfalls. Knowing about the emotional value of certain objects, for example, may be of importance for orchestrating changes within the business or in the business-family-relationship. Raising the consciousness about anticipatory socialization, instead of interpreting it as uncoordinated and random, may lead to more open discussions within family businesses about conflicting expectations concerning this period. Consultants may find the framework inspiring to actively design the period of anticipatory socialization.

As there is no theory for anticipatory socialization in family businesses so far and no data for larger comparisons, the qualitative approach chosen here can only come to tentative conclusions. These are not representative for any larger group of firms but are meant to lead to new questions and lines of study. More research about socialization in entrepreneurial families and in particular about anticipatory socialization related to family businesses is certainly needed. Future research should investigate cases systematically including different succession types and should be tested in larger surveys. Bourdieu's differentiation of economic, cultural, and social capital is one approach that can be applied to comparative studies. In particular, the role of objectified cultural capital has not been investigated in detail so far.

Furthermore, future research should be eager to differentiate between different periods of anticipatory socialization in family firms. One reasonable hypothesis – based on the evidence presented here – is that major changes occurred over time in family models, gender roles and management styles. To investigate those further historical analysis and longitudinal studies are necessary. Another line of research could be differences in anticipatory socialization based on industry or cultural backgrounds. The case should intrigue scholars to engage in more internationally comparative work to test if the processes uncovered here are particular for Germany or the time period studied. Finally, this study was largely focused on predecessor-successor relations. As a next step, the research agenda should be expanded to include other family member and members of the business, who learn the values and behaviors of the family during their participation in the organization.

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EVALUATION FRAMEWORK FOR THE TRANS-GENERATIONAL SUCCESSION PROCESS IN FAMILY BUSINESS

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Abstract

The authors propose and analyze a framework to evaluate the trans-generational succession process in family businesses. The framework is developed and tested, as part of a field project, on a sample of family businesses operating in the auto dealership industry in Italy. The framework proposed is an innovative set of twelve indicators critically described and evaluated according to their impact on the succession process and it is created with the intent of being replicated for the context of any family business, dealing with a succession process. The methodology adopted in this paper is based on a case study approach that allows authors to observe the environment, gain personal contact through interviews, collect data over a period of time and include both the live observations and a retrospective analysis of what happened. The paper further highlights the relevance of evaluating the transition of the growing leadership in family businesses.

Keywords: trans-generational, succession process, evaluation framework, framework indicators.

INTRODUCTION

In this paper, we refer to succession as the passing of leadership of governance of a family business to a new generation, within the family. The definition of the concept of family business is not always immutable and models incorporate different definitions. A family business is referred to as a specific organizational form (Bornheim, 2000), or a business with a specific ownership structure (Carsrud et al. 1996) and goals (Chrisman et al., 2003). Simplifying the concept of family business, it is possible to define it as any business "in which a majority of the ownership or control lies within a family, and in which two or more family members are directly involved" (Poutziouris, 2001). Moreover, family business is a system composed by the family, the business and the ownership (Tagiuri & Davis, 1996): family members are part of the business, with their emotions and values; the owner often has to manage a double role: father/mother and boss; finally, external managers have to confront themselves with the family members and their values. The relationship between family, business and ownership could represents a unique competitive advantage but also an obstacle for the development of family companies.

Relevant themes are investigated in the area of governance in a family business (Davis, 2001), the entrepreneurship of a family business and its succession planning (Sharma et al., 1997). The issue of succession is researched independently on the type of business and the controlling ownership (Miller, 1993; Rogers et al., 1996). Although it is widely recognized that the succession across generations of a family is significantly more complex (Le Breton-Miller, 2003), the difficulties arise from the fact that the founders perceive the business as an extension of themselves and have enormous reservations in handing over the control. In fact, owners of companies usually use all their energy in the business but with difficulty focus their attention on planning the future (Poutziouris, 2001) causing not few problems for the survival of the company; the succession is a theme that open o series of problems like the conflicts between heiress (e.g. De Massis et al., 2008) and the lack of knowledge and managerial skills of the successor (Jaffe & Brown, 2009), etc.

Consequently, the centrality of the owner-manager (Feltham et al., 2005) and the planning of the succession (e.g. Ibrahim, McGuire, Soufani, 2009), with all the related issues, are considered by researchers two of the main causes of the "dead" of the family companies. The data about the survival of the family companies demonstrate that roughly the 30% of the companies survive into the second generation of family ownership, and about the 15% arrive to the third generation (e.g. Lambrecht, 2004; Blondel, 2005).

In the succession process area, knowledge has been produced on factors preventing intra family succession (De Massis et al., 2008), differences with the first generation and subsequently in planning the succession (Sonfield and Lussier, 2004). Apparently the effective succession plans are based on clarifying the two fundamental issues, the management of the knowledge transfer (Bracci, 2008) and conflicts management (Aronoff, Ward, 1996; Cosier, Harvey, 1998). In particular, conflicts between family members seem to discourage applications for the position (De Massis, 2008) and can have a strong influence on the development of the business. The motivations at the basis of the conflicts are different, here some examples: the founder's sons are not only family member but also subordinates; secondly, when the status position of a certain family member is different from the one covered in the business could be a problem; or, if an external manager is more skilled than the founder's son probably he will be upgraded instead of the family member (Beckhard & Dyer, 1981).

This paper reflects on a framework of indicators for evaluating the succession process in the governance of a family business. It lays focus on a specific conceptualization of the "3 circles" of John A. Davis, and discusses the concept of governance in the light of the "3 circles": *"To effectively manage business, family and ownership concerns requires communication and decision making within and across the family, the business, and the ownership groups."*

In conclusion, the evaluation framework, as a first step to define a policy or a best practice, is applied to a set of family businesses at different stages of their succession processes.

METHODOLOGY

The methodology adopted in this paper is based on a case study approach, enriched with a trial and error theory building. Along the research history of case studies, many authors have written negatively about this methodology, mainly owing to the fact that it is perceived as lacking the rigour of the quantitative approach (Patton and Appelbaum 2003). Each author contributes with their studies to attribute to this methodology a number of important characteristics: it is based on observations and personal contact gained through interviews, it can take place in one organization but can sample more than one person, and the collection of data takes place over a period of time.

The main exponent is Yin (1994), who argued that the main restriction of positivistic case studies was the lack of as strong a rigour as the natural science designs. The author's main concern is to demonstrate that case studies contain the same degree of validity as the positivistic studies, suggesting that in order to avoid any contradiction it is necessary to apply a rigorous process of collecting data, covering: the main research questions, the unit of analysis, the links between data and research question and the procedures of interpreting data. Going forward, Stake (2006), instead of focusing on its validity, argued that the methodology provides a rich picture of particular life and behavior in an organization and that, due to its uniqueness, a case study may or may not be generalized to other contexts. Prieto and Easterby-Smith (2008) introduced to the concept of case studies, the longitudinal case study, which involves studying a case over several years. The study involved the research on the evolution of the unit involved. Siggelkow (2007), defends this methodology, arguing that it is valuable for demonstrating a particular kind of research question, inspires new ideas and illustrates abstract concepts. He also argues that it is possible to destroy a dominant theory with just a single example.

In general, case studies are the preferred method when the investigator has little control over events and when the focus is on a contemporary phenomenon within some real-life context (Yin 2003). Yin (2003) identifies at least four different applications for case studies: to explain the causal links in real-life interventions that are too complex for the survey or experimental strategies; to describe the real-life context in which an intervention has occurred; to evaluate some hypothesis; to explore those situations in which the intervention being evaluated has no clear, single set of outcomes.

The data collection for case studies could be many but only two sources of evidence will be considered in this thesis: interviews and participant observations. As Yin (2003) stated “one of the most important sources of case study information is the interview”. Interviews are useful in case studies due to the fact that they consider human aspects and, through interviews, gather data that reveals the opinion of the people involved in the case. This can guide the researcher to more valuable insights, analyses and conclusions.

The theory building is nested in a field project to evaluate the succession processes in 11 family businesses operating as auto dealers. The succession processes considered are of the first or second levels within the family. The framework is designed to use a comprehensive set of indicators, which are mutually exclusive and collectively exhaustive. It is then tested and validated in the family business perspective, by assigning to each business a score, from 1 to 5 (1 low performance, 5 best performance), for each indicator. The scores are assigned by a team of consultants and researchers following rounds of assessments and interviews with the members of family, business and ownership circles. The process is restricted to a specific industry in order to keep a general validity and at the same time avoid distortions infused by environmental variables.

The industry of auto dealers presents some unique and special characteristics in the world of family businesses, making them an ideally suited sample to test trans-generational succession. In the last two decades, the industry has experienced a fierce competition and a consolidation process. The companies in the industry have very often been the result of family start-ups and have registered a very strong growth within a generation in the 60’s and 70’s. The selection of the sample has been conducted with the agreement of the local brand organization of the car manufacturer distributed by the 11 family businesses. Selection has taken into account geographic representativeness of the samples and relevance to the research, i.e. the family being in a succession process; the sample of 11 family businesses has been selected based on the fact of belonging to three possible statuses:

A. At the very early stage of a succession process: more than 10 years before the current leadership expected or declared retirement

B. In the middle of a succession process: between 2 and 10 years before the current leadership expected retirement

C. Less of 2 years before or immediately after expected retirement of the current leadership

THEORETICAL BACKGROUND

When assessing the succession process in a family business, reference is often made to the "three circles model" by Tagiuri and Davis (1996), which highlights the three areas influencing the family business' activity: ownership, family and business itself. This model explains the existing links among these areas, which are the distinctive features of family businesses.

The Tagiuri & Davis' "three circles model" (1996) present a certain degree of *over-lapping in any family business*, by definition.

As the ownership is the relevant instrument to exercise authority over any company, it works in any family business scenario. In this context, the risk lies in the ownership becoming an instrument to regulate the other circles, namely the family and the business, where ideally other values, typical of its circle, should have their influence.

The transfer of the firm between generations is a crucial phase in the life of a family business; it requires care and previous preparation, though it can also create important opportunities for future growth and development, thanks to the structural, management and organizational changes it brings about.

The vast literature gives countless definitions of strategy (Rumelt 1980, 1991) and strategic vision. For this paper we retain the definition of strategy as "Strategy is the direction and scope of an organisation over the long-term: which achieves advantage for the organisation through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfil stakeholder expectations" (Johnson, Scholes 1999).

If a family business has started and flourished with the founder entrepreneur, the strategic vision certainly has to be part of his or her skills. The vision must adapt continuously to the ever changing environment. The succession process might last for several years, during the course of which, the *new leadership must acquire and improve a strategic vision* in order to steer the family business across the competing landscape (e.g. Beckhard & Dyer, 1981; Venter *et al.*, 2005) and must follow a process of training in order to acquire *managerial and entrepreneurial competences*.

The level of competence acquired by the growing leadership can be considered as a reflection of the probability of the trans-generational succession process to succeed.

While dealing with the measurement of the skills with no clear boundaries, like the managerial competences, difficulties arise in two areas, namely the measurement (Robotham, Jubb, 1996) and in identifying clear definitions for these skills.

Some could argue that the managerial competences might be approximated by business performance. In the existent literature, some remarkable attempts have been made to recognize elementary competences that build a manager and entrepreneur .

Another aspect to be considered is that family businesses often rely on a tacit and informal structure. The founder might have acquired in the business great respect and recognition for a strong leadership (e.g. Lansberg *et al.*, 1988; Jaffe & Lane, 2004; Ibrahim *et al.*, 2009; Caspar *et al.*, 2010). The experience shows that the organization

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might have grown at a level where directors have been appointed (both among the loyal employee or recruited outside the company), but are often entitled to limited responsibilities and, even though their nominal role as managers, they report for most of the decision making process to the entrepreneur. In the entire organization the delegation and accountability are scarce. The trans-generational continuity process relies strongly on the attitude of the organization to adapt to *a managerial organization structure*. The directors must recognize the role of the leader either in the founder entrepreneur or in the following generations (De Massis *et al.*, 2008). These values in relation to the company structure are fundamental to evaluate the eventual success of the trans-generation continuity.

In this context become very important the climate of an organization defined in literature (Pritchard Karasick 1973) as a result of behaviour of organizational samembers: "Organizational climate is a relatively enduring quality of an organization's internal environment distinguishing it from other organizations; (a) which results from the behaviour and policies of members of organizations, especially top management; (b) which is perceived by members of the organization; (c) which served as a basis for interpreting the situation; and (d) acts as a source of pressure for directing activity."

Any succession process is about a change process: growing and changing a new leadership, changing the organization, changing the ownership, occurring either within the family or inserting new and fresh managers from outside. In this process, resistances to change can easily pose as a significant deterioration of the *internal work climate* with an adverse impact on performances. Recent studies (Mahn Hee Yoon et al., 2001) have shown that the climate variables contribute directly to the job satisfaction and work effort, and indirectly to customers' perceptions of employee service quality.

The work climate might hence be measured directly by conducting surveys among member of organization (OCSII) or indirectly by customers' perceptions.

Studies (Sala, 2003) directly or indirectly relate leadership with work climate. In this paper, we have retained leadership concept as the ability to assist the entire organization achieve collective goals.

The succession process is by definition the creation and training of a new leadership; hence we assume that the measurement of *leadership* is fundamental in order to have a true reflection of the success of the process. This success can be attributed both to the candidate to succession and the first line of managers in the family business.

The trans-generational process pertains to the relationship among successors themselves and current leadership and their rights to inheritance. The complexity is modelled both in qualitative and quantitative aspects. Family businesses represent a natural employment opportunity for a wide number of individuals connected to or in relationship with the family. For the current leadership the employment of these individuals presents the advantage to transfer profits to the family via salary and benefits. The drawbacks include the risk of suboptimal appointment in critical positions for the success of the family business, and generation of expectations in the succession process.

While dealing with a succession process, a number of individuals, formally, legitimately or silently, might claim the right to be considered as a successor to the leadership of the family business (*Quantitative complexity of relations)*

Relations among elements cannot be represented only by the number of individuals connected by the relations *(Qualitative complexity of relation*s). This representation does not work in chemistry among atoms, leave alone the perspective among individuals. The experience shows that several factors might emphasize the complexity of the relations in a family business (e.g. Davis, 1983; Gersick *et al.*, 1997; De Massis *et al.*, 2008):

1. Conflicts among the candidates.

2. Conflicts among or within the "3 Circles"

3. Fragmentation in the ownership rights of the family business. Although the ownership is only one of determinant of the leadership, it is fundamental in order to assure stability to the leadership.

4. Most suitable candidate not supported by ownership rights.

The vision for a family business is its footprint, the dream that the business transmits to all its stakeholders and the following generations. It is fundamental for this vision to be based on common set of values for the business and family. Strategy, targets and operations might differ and change with the new leadership, but the vision of the family business should not change dramatically as *the vision is the common set of values which makes a family uniquely recognizable* (Donckels & Frohlic, 1991; Lyman, 1991; Tagiuri & Davis, 1996; Pervin, 1997).

However, the succession process for a family business presents many *risks*, like non-existence of offspring, conflicts among candidates and lack of competence and will of candidates.

Moreover must be said that in the early stages of a family business, many resources, not all of which are financial, have been fundamental for the firm to flourish and prosper. The experience shows that the founders, and often the following generations, have poured the family wealth generously into the business to assure the continuity in troubled times. This general approach opens up the possibility of the family wealth being concentrated in the family business. During times of succession, the need for *wealth distribution* creates the risk for an asset break up or a fragmentation of the ownership control of the family firm among conflicting individuals. Both cases lead to failure in the succession process, eventually leading to the failure of the family business as a whole.

Finally, the leader of a family business, being the founder or any manager governing the company has a normal activity cycle related to age, health conditions and retirement expectations. In the timeframe before leaving or *the critical time horizon*, the current leader must plan and implement a succession process. The literature apparently does not define a timeframe to plan and execute a succession process in a family business.

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THE FRAMEWORK

Our objective is to validate a model, based on a framework of indicators coming out from the literature and our experience, to evaluate the family business succession process. This framework of indicators should constitute a guide for practitioners in their work of evaluation and identification of critical issues when confronted in real cases of succession process.

The succession process in a business is a transformation path starting with a clear and defined leadership, governing the business, and terminating in a new leadership. In most of the publicly owned businesses, this process is clarified in the shareholders assembly and a board of directors is appointed by the assembly. In a family business, the process is by far, more complicated and more specific, when it involves a trans-generational succession.

The objective of any trans-generational succession process is to make sure that the family business survives the current leadership and prosper with the new leadership.

With a pragmatic approach, we recognize that the arrival point of transition might not be welcomed, considering the business being a family one. Succession might be impossible within the family because of many reasons or might be facing factors preventing intra family succession (e.g. De Massis et others, 2008).

With the intent to capitalize on the knowledge in the literature, a starting point has been identified in the "three circles model" of Tagiuri and Davis (1996). This starting point has led us to consider three areas of relevancy, originating from the three circles, the business, the family and the ownership groups. Within the areas of relevancy, the authors have identified, with the support of the literature, 10 indicators:

1. Strategy and Organizational (Business circle)

    1. Managerial structure of the company

    2. Strategic vision of the new generation

    3. Managerial and entrepreneurial competences of the growing leadership

    4. Work climate

    5. Leadership development of human resources

2. Relations within the family (Family circle)

    6. Quantitative complexity of relations

    7. Qualitative complexity of relations

    8. Accordance of visions among generations

3. Wealth Management (Ownership circle)

    9. Overlapping between wealth of the family and the business

10. Management of the wealth other than the business

These indicators have the objective to clarify the relations of the relevant actors, i.e. members of the family, external managers, employees, within the circle and among the circles.

To add to the above-mentioned three areas, the authors have added indicators in the area of the Risk Management, to evaluate the trans-generational succession. Trans-generational succession deals with delicate matters like unexpected disappearance or incapacity of current leader. This has invoked the need for evaluating the probability of leave of the current leader and stake at risk in case of disappearance.

This consideration has proposed two additional indicators:

1. Management of stake at risk

2. Critical Time Horizon

For each area of relevancy, the authors have established a scale in order to evaluate the answers obtained interviewing the family businesses selected (Table 1).

Table 1. Framework's indicators and scale of evaluation.

Area	Indicator	Scale of evaluation
Strategy and Organizational (Business circle)	Managerial structure of the company	The scale, adopted by the indicator, issues the score of 5 when, a recognized structure of responsibilities is in place, members are held accountable for results, and are given the resources to meet targets along with a proper structure of incentives and recognition of achieved result are in place. The indicator issues the score of 1 when, on the contrary, all responsibilities are centralized around a supreme chief, without a clear and structured delegation, with the members of the organizations not having the resources to meet their targets and there is no system of management by objectives in place.
	Strategic vision of the new generation	In the evaluation scale adopted, the indicator "strategic vision of new generation" issues the score of 5 in case when the new generation candidate expresses with clear statements a strategic vision of the industry and the family business, and positions the family business coherently within the industry. On the other hand, the indicator issues a score of 1 in the case of the candidate lacking in strategic vision and having no understanding of the industry.
	Managerial and entrepreneurial competences of the growing leadership	The indicator of managerial and entrepreneurial competences issues the score of 5, when clear evidences of the three retained basic competences for the purpose are recognized at outstanding level by at least half of the research team. On the contrary, the indicator issues the score of 1 when at least half of the research team recognizes the existence of one or less of the above mentioned basic competences at moderate level.
	Work climate	The team has eventually analyzed the data in terms of 5 categories, according to OCSII methodology and assigned to each category a score in the range from 1 to 5.
	Leadership development of human resources	We adopted an extremely simplified approach in order to answer the question: "Is the manager sought as guidance by co-workers and subordinates?" The answer to this question and consequent investigations provided the perception of the leadership development among the top management, both among candidates in the succession process and ones not in the succession fray. The indicator then issues a score in the range of 1 to 5, based on the perception obtained among the co-workers and subordinates.
Relations within the family (Family circle)	Quantitative complexity of relations	The indicator of quantitative complexity of relations considers the number of candidates originating from the "3 circles", the family, the business and the ownership group. In the evaluation scale adopted, the indicator "quantitative complexity of relation" issues the score of 5 (indicating low complexity) if there is only one candidate in the succession process. On the other hand, the indicator issues the score of 1, when the quantitative complexity is maximum, i.e. if one of the following cases occurs: • the presence of at least one candidate from each of the 3 circles • the presence of at least three candidates from one or more circles A candidate is defined as an individual expressing explicitly or tacitly the intention to lead the family business. The candidature might also be presented by the circle to which the candidate belongs.
	Qualitative complexity of relations	In the evaluation scale adopted, the indicator "qualitative complexity of relation" issues the score of 5(indicating lower complexity) if none of the above mentioned factors occurs. On the contrary, the indicator issues the score of 1 if all the mentioned factors of complexity occur at same time, with wide and recognized severity.
	Accordance of visions among generations	The indicator in the framework measures the accordance of visions for the family business among generations of the family. It is a qualitative evaluation, translated in a scale from 1 to 5, based on perceptions obtained by the research team through interviews and assessments of the family members.
Wealth Management (Ownership circle)	Overlapping between wealth of the family and the business	In this context, the risk lies in the ownership becoming an instrument to regulate the other circles, namely the family and the business, where ideally other values, typical of its circle, should have their influence. The presence and adequacy of each set is evaluated qualitatively with reference to its circle in a scale from 1 to 5.
	Management of the wealth other than the business	In the evaluation scale adopted, the indicator "management of the wealth outside the family business" issues a score of 5 to the context of existence of an appropriate family wealth outside the company and an independent and autonomous management of that wealth. In contrast, the indicator issues the score of 1 to the context, where the wealth of the family is concentrated in the business and managed as a single asset.
Risk management	Stake at risk	The gap in governance of the family business and the potential detriment of the business is evaluated in a scale of 1 to 5.
	Critical time horizon	We define the critical time horizon indicator as the time to the expected hand over of the current leadership. The indicator takes into account the present age and the expressed intention of retirement of the current leader. A limit of 70 years, as a conventional retirement age is set, as beyond that there is an increasing possibility of unexpected inability or disappearance of the senior leadership. The timeframe is than converted into a score ranging from 1 to 5. A score of 5 is assigned in case of 15 years or more of critical time horizon, while a score of 1 will imply 2 years or less of time horizon.

RESULTS

The authors have applied the framework for evaluating the trans-generational succession process in a field project. A sample of 11 family businesses, operating in the auto distribution industry has been selected based on the fact of belonging to three possible statuses:

D. At the very early stage of a succession process: more than 10 years before the current leadership expected or declared retirement

E. In the middle of a succession process: between 2 and 10 years before the current leadership expected retirement

F. Less of 2 years before or immediately after expected retirement of the current leadership

Results, scaled on the mentioned range of 1-5 (1: lowest performance, 5: highest performance) of testing the framework of indicators on the sample of 11 family businesses are presented in Table 2.

Table 2. Results of applying the framework to 11 family businesses.

	Managerial Structure	Strategic Vision of New Generation	Managerial and Entrepreneurial Competences of Growing Leadership	Work Climate	Leadership Development and HR Management	Qualitative Complexity of Relations	Quantitative Complexity of Relations	According Strategic Vision among Generations	Overlapping among family, business and ownership	Management of the wealth outside the family business	Stake at Risk	Critical Time Horizon	Average of Business Family and Ownership Indicators
	Business					Family			Ownership		Risk Management		
FB1	5	5	5	5	5	5	5	5	5	5	3	5	5.00
FB2	4	4	4	3	2	5	4	5	5	5	4	5	4.10
FB3	4	4	3	4	3	3	2	5	4	4	4	5	3.60
FB4	3	3	3	2	2	5	5	4	4	4	4	5	3.50
FB5	3	5	4	3	4	1	3	3	3	3	2	4	3.20
FB6	3	3	3	4	4	2	3	4	2	3	3	4	3.10
FB7	2	3	3	4	3	4	3	2	3	3	3	4	3.00
FB8	3	2	1	3	4	4	2	3	4	4	3	3	3.00
FB9	2	3	2	3	2	5	3	5	3	3	2	2	3.10
FB10	3	3	2	3	2	3	3	5	3	3	2	2	3.00
FB11	2	2	2	2	3	5	3	2	2	3	2	5	2.60
Average	3.09	3.36	2.91	3.27	3.09	3.82	3.27	3.91	3.45	3.64	2.91	4.00	3.38

Two questions might arise out of a critical observation of any model based on framework of indicators:

1. Are the variables sufficient to describe the phenomenon?
2. Are the variables independent?

Answer to the first question might be difficult because of two reasons: in most of business environments, phenomenons are scarcely repetitive. Hence the prediction capacity in evaluating the succession process might be rendered invalid by a number of other events occurring in the wide timeframe of trans-generational succession process. Providing a sound answer to the second questions might be easier. The authors are evidently looking for an indicator that might be used as a proxy of another indicator because of the direct “cause effect principle” between the two variables or because of imperfect definitions of the indicators. In order to test the independence of the framework variables, the authors have calculated correlation coefficients between couples of variables and the results are illustrated in Table 3. Significance of this test is limited due to the size of the sample (N=11). The Fisher r-to-z transformation provides the 0.95 confidence intervals for rho (the correlation within the general population) around the r (the correlation observed in the sample). Given N = 11 for r = 0.5 the interval for rho is between -0.14 and 0.85. With the goal to obtain an upper limit below 0.66 with 0.95 confidence the size of the sample should exceed N=65.

Table 3. Correlations between variables.

	Managerial Structure	Strategic Vision of New Generation	Managerial and Entrepreneurial Competences of Growing Leadership	Work Climate	Leadership Development and HR Management	Qualitative Complexitiy of Relations	Quantitative Complexitiy of Relations	According Strategic Vision among Generations	Overlapping among family, business and ownership	Management of the wealth outside the family business	Stake at Risk	Critical Time Horizon
	Business					Family			Ownership		Risk Management	
Managerial Structure	1	0.685	0.661	0.554	0.397	0.014	0.391	0.615	0.772	0.833	0.521	0.448
Strategic Vision of New Generation		1	0.888	0.528	0.339	-0.3	0.377	0.428	0.487	0.416	0.16	0.329
Managerial and Entrepreneurial Competences of Growing Leadership			1	0.513	0.345	-0.07	0.634	0.282	0.464	0.504	0.308	0.595
Work Climate				1	0.606	-0.19	0.02	0.296	0.281	0.286	0.169	0.093
Leadership Development and HR Management					1	-0.33	-0.03	-0.23	0.05	0.161	-0.1	0.243
Qualitative Complexitiy of Relations						1	0.463	0.106	0.407	0.465	0.242	0.181
Quantitative Complexitiy of Relations							1	0.266	0.444	0.501	0.271	0.419
According Strategic Vision among Generations								1	0.51	0.469	0.287	-0.14
Overlapping among family, business and ownership									1	0.933	0.634	0.326
Management of the wealth outside the family business										1	0.689	0.522
Stake at Risk											1	0.61
Critical Time Horizon												1

The table 3 shows few noticeable correlations between variables.

The first and most relevant correlation in our sample is between the two indicators:

- Overlapping among family, business and ownership circles
- Management of the wealth outside the family business

Both the variables belong to the ownership circle. Apparently the data reflects the trend of the wealth of the family being mostly concentrated in the family business without an independent management, or even the existence of wealth outside the fam-

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ily business. In such situations, the ownership of the family business assumes priority and dictates “norms, membership rules, value structures and organizational structures” to the other circles, namely family and business. Thus in this scenario, the overlapping among the circles is highest.

The second relevant correlation in the sample is between the two indicators:

- Strategic vision of the new generation
- Managerial and entrepreneurial competences of the growing leadership

Both variables, once again belong to the same business circle. We assumed that managerial and entrepreneurial ability were mostly based on three competences:

1. technical understanding of the industry,
2. creativity, risk taking and innovation,
3. ability to effectively communicate and motivate people,

The data show that the three competences coexist with the strategic vision. This underlines the significance of strategic vision in the technical understanding of the industry: both competences concern the analysis and the planning, while the creativity, risk taking, innovation and ability to communicate concern the execution.

The third correlation is between

- Managerial structure of the company
- Overlapping among family, business and ownership

And the fourth correlation is between

- Managerial structure of the company
- Management of the wealth outside the family business

The correlation among the indicators, managerial structure and the overlapping among the circles, can be explained by the fact that the managerial structure of the company is the way the issue of the overlapping is clarified within the business. A managerial structure defines the set of “norms, membership rules, value structures and organizational structures” that govern the company. We can thus assume that the indicator, managerial structure of the company, is a component of the overlapping among circles indicator.

The fourth correlation is explained indirectly with the correlation between the overlapping among circles indicator and the management of wealth outside the family business indicator.

Representing the framework of indicators

The authors propose a synthetic representation of the results by applying the framework of indicators to a sample of family businesses and drawing the indicators in a three dimensional scope. The ten indicators of the three circles are synthesized by an average, expressing a set of skills, competences and relations of family, business and ownership. The last two indicators, stake at risk indicator and critical time horizon indicator depict the current stage of the trans-generational succession process, exclusively from the point of view of risk and time.

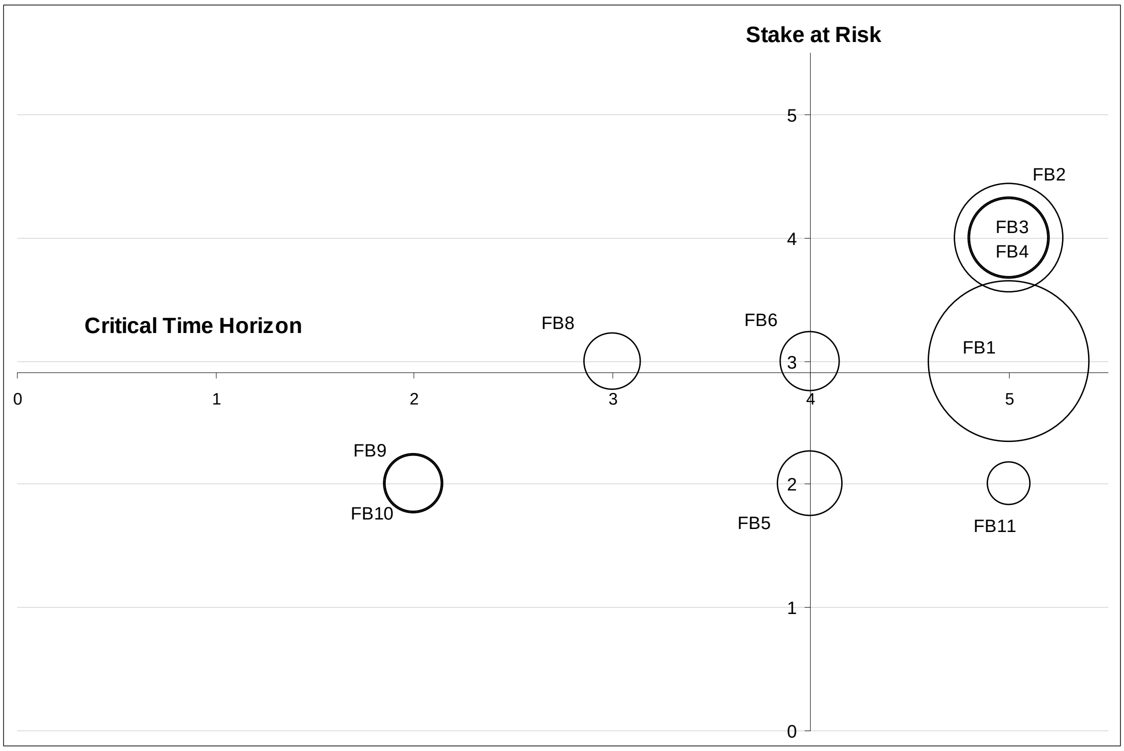

Figure 6. Representing the framework of indicators.

In the Figure 1 each family business (FB) is represented on XY graph with the critical time horizon score on the X axis and stake at risk on Y axis. The size of each FB represents the average of the first 10 indicators, the ones expressing a set of skills, competences and relations of family, business and ownership.

The representation of the framework suggests grouping of the items of our sample into four clusters based on their respective positions on the graph, as represented in Figure 2

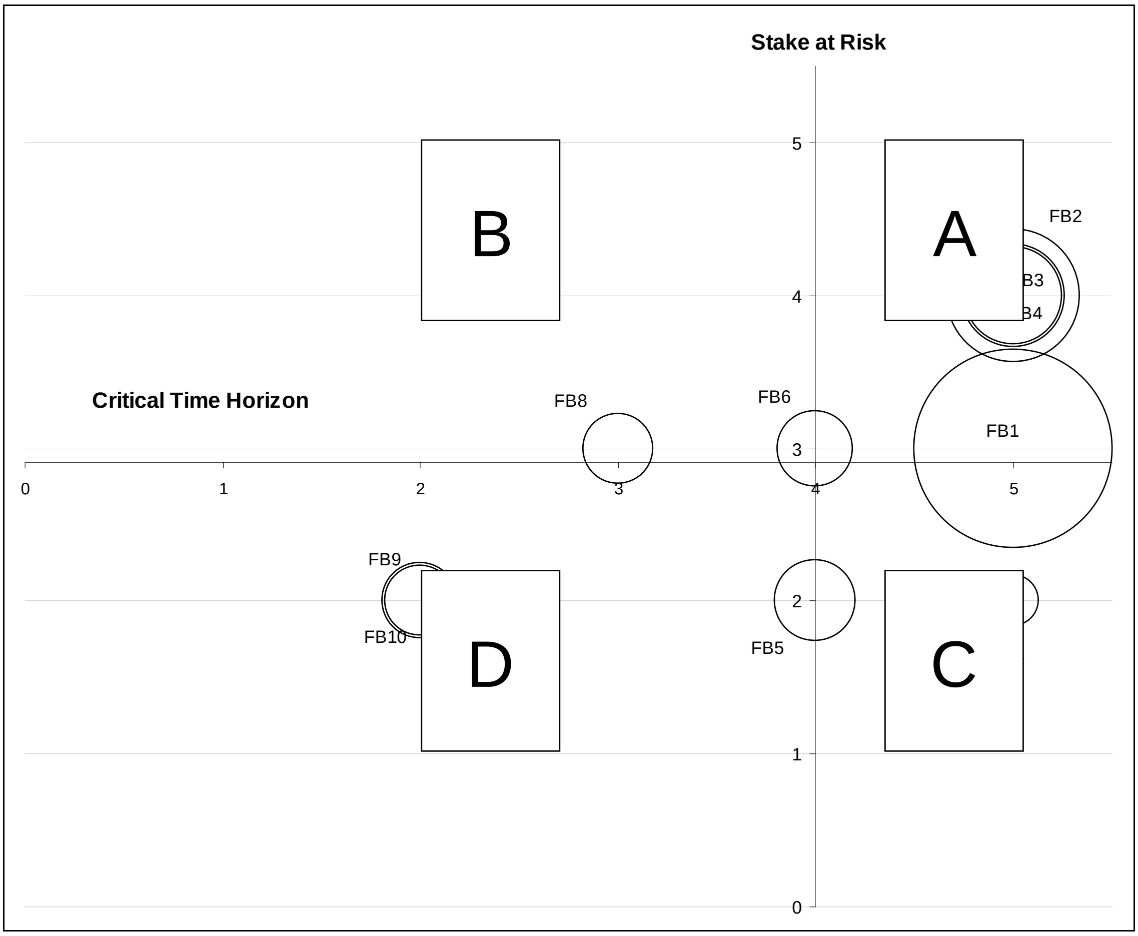

Figure 7. Clustering the sample.

Cluster A includes the family businesses best positioned to succeed the trans-generational succession process. They present simultaneously

- a wide time horizon in order to plan and execute trans-generational succession process
- a low risk in the case of unexpected leave of the current leadership, which also implies better management and family structure

Cluster B includes the family businesses that have in some way approached a succession plan consciously or unconsciously and have reduced the risks by preparing and training offspring to succeed. These businesses present

- a reduced time horizon
- a low risk in the case of unexpected leave of the current leadership

Cluster C includes family businesses that still have time to plan and execute a succession process but already at current stage present the risk of failure because of the lack of offspring. In this context they present

- a wide time horizon
- high risk in the case of unexpected leave of the current leadership
-

Cluster D includes family business that will not follow a trans-generational succession: offspring, if present, does not have competence or willingness to continue the family business and the current leadership does not have time or does not want to engage in a long succession process. These family businesses present

- a reduced time horizon
- a high risk in the case of unexpected leave of the current leadership

The positioning within the four clusters must be amended by the average of the indicators of the three circles, namely set of skills, competences and relationship among family, business and ownership. These can contribute in the process of confrontation during the course of succession. The higher the scores in these indicators, the shorter it takes the family business to better overcome the succession process.

CONCLUSIONS

This paper has the intent to offer a framework that can guide practitioners in evaluating and identifying critical issues in real cases of succession process. Moreover, the framework of indicators has the intent to give a complete and accurate picture of trans-generational process in a family business scenario. It has also introduced the important flexibility to cluster family businesses with respect to their stages of succession and evaluate the assets; the three circles can leverage to overcome the difficulties of the process.

A lot of issues are proposed in literature with regard to the succession process and each one can have a strong influence on the final result, so the difficulties in identifying the most relevant elements is very high.

LIMITS AND FURTHER RESEARCH

Further analyses and research should probably investigate the application of the proposed framework over the entire cycle of the succession process, right from the planning stage to the complete execution and passing the reins. This is probably the only way to test the prediction capacity and the completeness of the framework of indicators. Further research should also focus on establishing the link between the indicators discovered and the current performance of the family businesses and on family businesses involved in different sectors.

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INTELLECTUAL CAPITAL AND PROPERTY RIGHTS (IPR) AS THE KEY ASSET OF A FAMILY FIRM: A Case Study with an Evaluation Approach

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Abstract

The role of immaterial production factors is becoming more and more important and they are estimated to be over two-thirds of what is required in production in our post-industrial time. Accordingly, the discussion of Intellectual Property Rights (IPR) as key assets is increasing. If these assets are wrongly estimated, this can be very harmful in loan negotiations, credit ratings, taxation, and family business successions or sell-outs. The research question of the present study is: How does a family business owner evaluate the IPR goodwill of his company, and what are his experiences of financiers' evaluations? The case firm in the study is a Finnish firm that produces recorded material, mainly music. The two theoretical approaches included in the literature review are as follows: Intellectual capital and property rights (IPR) and Information asymmetry. The single-case study illustrates the problems of IPR evaluation. Major differences could be discovered in the evaluations of IPR and, according to the empirical data, this seems to be, to a great extent, a consequence of information asymmetry between the family enterprise and their financier. The limitation of the study is that it is based on a single case representing just one industrial branch and one country, but some analytical generalizations may still be possible. The main policy and educational implication is that new thinking in evaluating IPR assets as a family business resource would be needed in financial institutions as well as in governmental industrial policy.

Key words: Evaluation, Finland, Immaterial assets, Information asymmetry, Intellectual capital, Intellectual property, IPR.

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INTRODUCTION

The value of an enterprise is typically made up of physical, financial and intangible assets (also called intellectual capital or intellectual property). Intellectual property can be the most productive part of the assets, but because these assets are non-financial, there is no consensus about how they should be evaluated on a balance sheet (cf. Sveiby, 1988, and 1997). Very often they are left off of the balance sheet and sometimes they are mentioned under the title of “goodwill”.

Some family firms have chosen a branch of industry where goodwill plays an important role in the total value of the firm. A major part of such a goodwill value may be based on the intellectual property rights. Examples of such companies are software companies, film and music producers, industrial designers, and architects, to name a few. A common nominator for them is the accumulated asset of IPR's which is often an invisible item on a balance sheet but that may still be the key resource and the important source of income to the firm and its owners (Sveiby, 1988). On the other hand, financiers do not always sufficiently value such assets as a security (collateral) of the loans. The values can become disputable in loan negotiations, credit ratings, company sell-outs, and - even between relatives - in family business successions.

For example, if IPR assets are underestimated in loan negotiations, the family often has to use other types of securities including private wealth to overcome this problem and to fill the collateral gap. There is also a related problem of information asymmetry (cf. Aboody and Lev, 2000) where one party has more or better information than the other. Typically, the business owner knows better the value of intangible assets than the financier, but still the imbalance of power exists and favors the financier. This can be harmful if the financiers do not know or understand the real value of IPRs for the company.

The research question of the present paper is expressed as follows: ***How does a family business owner evaluate the IPR goodwill of his company, and what are his experiences of financiers' evaluations?*** The informant in the single-case study is a producer of recorded material, mainly music. The products are CDs, DVDs and related hybrid products including voice, picture and printed text. The branch is both capital intensive and labor intensive. The labor input must be given by professional experts and artists, such as composers, lyricists, singers, studio professionals, and graphics designers. The managerial expertise is related to the coordination of this creative process and its economy, and the ability for keeping various activities and their timetables under control. The leadership expertise is related to the skills of motivating professionals and artists in their creative work. Marketing activities include sales promotion, networking, filling and renewing sales displays in shops, as well as monitoring the sales performance.

When the so-called IT Bubble started to grow some dot-com companies became very highly valued in a few months. The NASDAQ index of 2000-03-10 was 5132.5 and is now in November 2010 less than half of this i.e. 2504,8. This demonstrates that the market value of some of them that became publicly quoted grew dramatically. Later on, some of these companies lost their market value significantly. One explanation could be that the goodwill was overestimated in an earlier phase, but in the following years these companies have shown a more realistic level of the invisible assets.

LITERATURE REVIEW

Intellectual Capital and Property Rights (IPR)

The academic discussion on the intellectual assets and property started when the Japanese Itami published his findings on the effect of invisible assets on management in the 1980s (Itami, 1987). Sveiby contributed to this discussion and published the widely-quoted text "The Invisible Balance Sheet" (Sveiby, 1988). Stewart started to use the concept "Intellectual Capital" in articles from 1994, and later published a textbook called "Intellectual Capital" (Stewart, 1999).

From Sveiby (1988) we can learn that in some cases the returns generated by the assets that are not reported on the Balance Sheet may be the most important ones. For some organizations, like for the case target of this paper, this can be the biggest source of value creation. A distinction can be made between internal intellectual capital (like the knowledge and expertise of the personnel, information systems, brand names, and copyrights) and external intellectual capital (like well-established customer and supplier relationships).

Thomas Stewart refers to the Intellectual Capital as the "new wealth of organizations" (Stewart, 1999, and 2001). Intellectual property is a term that is also widely used. Most often this means creative outcomes of the human mind for which intellectual property rights can also be recognized. Examples of such rights are copyrights, trademarks, patents, and so on.

The empirical case in this paper is a music producer. In songs published by a music producer, the copyright covers both a melody and a text for decades. Accordingly, intellectual capital and intellectual property rights should be an essential source of the goodwill value of the firm.

Information Asymmetry

The notion of information asymmetry is nowadays a central viewpoint in economics and especially in contract theory, financial market research, and accounting. In 2001, the Nobel Prize in Economics was awarded to three analysts of markets with asymmetric information. They were Akerlof, Spence and Stiglitz.

Information asymmetry exists when one party has more or better information than the other. A classical example in a family business setting is the principal-agent problem, when a non-owning CEO is hired by the owners to run the company. The information asymmetry to some extent can be overcome by careful monitoring and mutual trust, but nevertheless it is embedded in the principal-agent relationship of this kind.

Another classical example is the recruitment process. The employer (recruiter) knows better the firm and worse the applicant's real competence and motivation, whilst the applicant knows better his/her competence and motivation and worse the firm. In this respect, there is a multiple (two-way) information asymmetry. In labor economics, Hayes (1984) has studied the impact of information asymmetry on the behavior of trade unions, such as when striking. When a patient goes to see the doctor, s/he knows better how s/he is feeling (symptoms), but the doctor will still have better knowledge and skills to make a proper diagnosis of the reasons. Discussions (transfer of information, communication) help to balance the information asymmetry between the doctor and the patient, but a certain amount of asymmetry normally remains, if the patient is not an expert on healthcare.

In the stock market, the insiders have more and better information than the outsiders. In other words, there is an information asymmetry. Therefore, the insiders are not allowed to make transactions close to the release of quarterly information (cf. Aboody and Lev, 2000). Every now and then, this principle is not followed in practice, as insiders are accused of breaking this rule.

In the case study to be presented, the key viewpoint is the information asymmetry between a family business owner (here called “Eric”) and his main financier (a financial institution here called “Fund”). The relationship between the two has lasted over ten years, and it has had ups and downs over this time. In addition to the Fund, Eric's firms have raised money from a commercial bank, and private investors.

Information asymmetry often causes the problem of an *adverse selection*. Sometimes this can mean that banks give out loans too carelessly as happened during the last financial crisis nearly everywhere. In Eric's case the situation is different. Eric thinks that the “Fund” is too risk-avoidant, mainly because the “Fund” does not evaluate enough his company's IPR assets. Theoretically, there are two approaches to solving the problem of an adverse selection. One is *signaling* (Spence, 1973). If Eric's company is showing good results, the “Fund” should interpret this as a signal showing the potential and value of intellectual property. The other one is *screening* (Stiglitz, 2001) which is a technique used by one economic agent to extract otherwise private information from another. For example, the “Fund” could ask another financial institution about the general performance level of the industrial branch or the private-sector venture capitalists about how they would see the value of intellectual property in this field. Although Eric has provided a lot of financial information about his company to the “Fund”, there is a huge difference with regard how Eric evaluates now his intellectual property and how the “Fund” evaluates it.

Famous economist John Kendrick, an expert of productivity and production factors, has commented on our era of post-industrialism in the following way. He thought that nowadays the immaterial capital is about 70 per cent and the material capital is 30 per cent of what is required in production. Furthermore, he suggested, that the difference is growing. When studying the main drivers of U.S. economic growth he found the increase in the contribution of intangible assets to U.S. economic growth. It has been reported that in 1929 the ratio of intangible business capital to tangible business capital was 30 % to 70 %. In 1990, that ratio was 63 % to 37 % (Hoskisson et al. 2008). Therefore it would be extremely important that also the financiers would re-consider their policy regarding collaterals. Otherwise there is an immoderate pressure of using the private wealth and the personal guarantees of the family members as a security, especially if the venture capital market is underdeveloped. In Eric's case this has meant that his family apartment is totally mortgaged and, in addition, the “Fund” has demanded Eric to accept several covenants related to his family business before lending any money to Eric.

ISSN: 1796-9360

METHODOLOGY AND RESEARCH METHOD

In this study, the ontological approach is based on social constructionism. It supposes that reality is created in social interaction between people. The epistemological approach is that the narratives and e-mail documents are the sources of information that can illuminate such an interaction for a researcher.

The results are based on a single-case study, and the purpose of the study is to illustrate the problems of IPR evaluation. The case demonstrates how greatly the views of a family entrepreneur and his financiers may differ. One explanation could be that there is a multiple information asymmetry between the business expert (the entrepreneur) and the financiers (who may be funding experts, but not business experts in this branch of industry). On the other hand, it can also be possible that the entrepreneur's view of funding may be biased or limited. The logic of judgment in the study is a theory-driven empirical analysis based on the in-depth interview of the entrepreneur and the participatory observation regarding the documented e-mail correspondence between the entrepreneur and the persons representing the financial institution. The theoretical background is the literature of Intellectual Capital, IPR, and the Information Asymmetry.

Later, the study will be continued by interviewing the representatives of the financial institution who are the key decision makers in funding decisions of creative industries in general and in this case enterprise, in particular. It will be interesting to see, how they define the value of intellectual assets in general and particularly in this case and, more importantly, how they explain and justify their view.

What we get from the interviews and observations are not necessarily *truths* in the strictest sense. Evaluations are, however, *realities at the level of language*. We have here the entrepreneur's reality and the financier's reality, and the two realities seem to be very far from each other. It is my role as a researcher to report how the entrepreneur evaluates and what kind of experiences he has from the financiers' evaluations.

EMPIRICAL CASE: FAMILY BUSINESS IN MUSIC PRODUCTION

Popularity of the Artists

Eric thinks that the IPR value of music production is based on several origins. The first one is the market value (popularity, desirability) of the artist. It is the market value that has been created earlier or must be created before the product can have any IPR value. We have read the stories about how difficult it was for the Beatles to get their first recognition, but later their IPR value became enormous and has remained at a high level for half a century. Good artists can be selective, and if a music producer is able to attract the best artists, it *signals* that the company is appreciated. Eric compares the development of a good artist with the development of a football player. It is often a fairly slow process during which the value of the artist (or the football player) gradually goes up if everything goes well. The "brand" of the artist is created together, and it requires inputs both in marketing and product development, typically for 5-10 years. The competition to get the best artists can be based on a long-term development from novices to professionals or on using money to recruit skilled artists from other producers (compare the player markets in football). The main logic here is that the music producer should be able to increase the artist's popularity.

Eric' personal experience is that the “Fund” has never evaluated these signals from Eric's business. Although they have been able to win several national pop song competitions with their artists, this has not been notified properly. Even recently Eric was able to recruit a big star that has been successful as a singer for decades, but the “Fund” has not changed their policy. Eric concludes that the information asymmetry here is 100 % (Eric) to 0 % (“Fund”). The IPR values of the best artists can remain protected by legislation for several decades even after their death and the recordings can be recycled in various album collections. Therefore, it is surprising that the “Fund” does not evaluate this kind of IPR at all.

Product Development

Eric holds the view that music products require continuous product development: both in new ones and renewals. Modern examples are CD/DVD cards, hybrid media, loadable products etc. Music products can be used in advertising as give-away products. Combining voice with picture (DVD, hybrid media) can be compared with the development from radio to television. Having a smart outlook for the product is an essential part of its marketability which means that also the graphics of the product must be of a high quality.

Eric concludes that the “Fund” has never paid any attention to these values. He thinks that the information asymmetry here is 100 % (Eric) to 0 % (“Fund”). In the 1930s, Disney experienced the same when developing the first film animation (“Snow White and the Seven Dwarves”) and nearly went bankrupt. Eric asks cynically: “Haven’t we learnt anything in 70 years?”

Technical Investments

Eric has created a studio. The equipment costs are nowadays reasonable, but the infrastructure is demanding. In a studio, the acoustics must be good, and also the operational design of the studio must be planned and realized carefully. The design decision means, for example, whether the environment is based on digital or analogical technology. The acoustics require good insulation. Additional equipment costs are caused by video production, multimedia, and graphical design. Eric concludes that the evaluation used by the “Fund” is about 10 per cent of the real value of the studio. They evaluate the studio only as a fitted room and equipment, but they do not pay any attention to its usability in making profit. He thinks that the information asymmetry here is 90 % (Eric) to 10 % (“Fund”).

Sales and Distribution Network

Together with his sales staff (= seven full-time sales people with vans) Eric has developed a sales network that is capable of filling the sales stands in over one thousand outlets (retail shops, petrol stations, etc. with a good regional cover). Creating such a network has demanded a lot of time and energy from the company. Sometimes, to get access to a good sales point requires many years and several calls to a shopkeeper. The producer must plan the seasonal offering (Christmas, Valentine's Day, Mother’s Day, Summer) and be flexible. The stands must look smart and attractive. The fulfillment requires a fairly high level of inventories which puts pressure on the working capital.

Eric thinks that the evaluation used by the “Fund” is about 10 per cent of the real value of the sales resources. They may see the items just as vans, stands and receivables, but they have not evaluated the high labor input that has been invested in getting the sales points and creating the inventories for them. Accordingly, he thinks that the information asymmetry here is 90 % (Eric) to 10 % (“Fund”).

Tacit Knowledge and the Process - Holistically

The knowledge chain from the artist to the customer's purchasing decision requires a lot of competence that Eric has gained during the period he has been in the music business (over three decades). He has developed both the production efficiency and the service concepts. The possible bottlenecks in the chain can be sorted out by the in-house resource allocation or by flexible working hours. The professionals must be educated in a good mutual co-operation. The role of internal marketing is important. The development of special tacit knowledge and skills and the right working attitudes have required a lot of training investments both in production and in marketing. Eric feels disappointed that the “Fund” has never paid any attention to the intellectual property of tacit knowledge. He thinks that the information asymmetry is 100 % (Eric) to 0 % (“Fund”).

Differentiation: Special Products

Eric has developed his business concept for more than 32 years. With about 20 full-time employees (on average) it means an investment of 600 fully-paid years. In addition, he has paid for about 100 years' worth of salaries to freelancers. He estimates that the number of working hours has been something like 700,000 hours. If his studio would have invoiced all these costs from external buyers, he would have gained 700,000 times 80 euros i.e. 56 million euros. Instead, he has developed intellectual property and retained IPRs within the company. Eric tells that the “Fund” has always thought that salaries are just costs (not investments in the intellectual property), although there are still many decades of protected time (“copyright time”) even with the oldest products. He thinks that the information asymmetry here is 100 % (Eric) to 0 % (“Fund”).

CONCLUDING EVALUATION

Eric concludes that the overall information asymmetry regarding the business itself between him and the “Fund” is 95 % (Eric) to 5 % (“Fund”). Regarding just the funding, the asymmetry is, of course, different. This has led to the situation where the “Fund” has stopped further financing and has been active in getting in amortizations faster than Eric would have liked to pay them. Eric thinks that the “Fund” has caused him a lot of pressure. He also thinks that the “Fund” has blockaded or stopped the promising internationalization process of his company. He thinks that information asymmetry may be one factor behind this antagonistic attitude.

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Eric's business is a genuine family business where he is the founder. The firm employs his wife and children and several non-family employees, and the founder's family is economically very dependent on the company's performance. Eric feels stressed about losing the control of the business or about becoming insolvent. In the case of bankruptcy the intellectual property would not be evaluated as high as it yields when the business is flourishing.

DISCUSSION: REFLECTIVE THOUGHTS

Eric's case is not unique. There are several other companies who have faced the same kind of difficulties with this particular "Fund". For Eric, the whole situation is in a kind of a stalemate.

Eric has tried to give the "Fund" as much information about his performance and future plans as they have demanded and sometimes even much more. He has proactively analyzed the pluses and minuses of his business to the "Fund" in order to reduce the information asymmetry between them. Some individuals of the "Fund" have occasionally shown some understanding but no new financial decisions have been made in the last 2-3 years.

Could Eric and his family do more in this matter? Should they have acted differently? Hindsight or wisdom after the event is easy, but there may be something that Eric's case could teach us all. First, some delayed payments from Eric's side have given a negative signal that his company has liquidity problems (*signaling*). Second, Eric's main competitors are much bigger in size and multinational (such as Warner, Sony, EMI, and Universal), and their business logic and their negotiation power is very different. Therefore, the *screening* would not be very fair with those giants. Third, has the company relied too heavily on one major financier (the "Fund")? Fourth, a natural question could be: Have they grown faster than their finance and profitability have enabled them to do?

Eric thinks that his intellectual property is worth tens of millions of euros. The "Fund" thinks that the maximum loan he could get from them is about half a million euros. During the years Eric has pumped the profits in for re-investments, but in this industry these have been salaries and freelancers' wages mainly and are now invisible balance sheet items. New products have been developed (there are about 3000 master recordings) and a sales network of over one thousand sales points has been created.

As the case shows, the financiers do not pay enough attention to the value of intellectual capital. It is difficult to convince them about anything that is intangible by nature. They understand slightly better the physical and financial assets, but the intellectual capital is not for them a security.

This is a great pity, because Eric is a good example of a family business founder who has been successful in creating relational capital (with suppliers, clients, research centers, media, top-class artists, and so on). He has been successful in creating human capital (knowledge and skills of his employees) and organizational capital (collective knowhow beyond the capabilities of individual employees, information systems, business concepts, workflows, brand, and intellectual property). He has been able to develop a lot of assets in the intellectual property rights (Sveiby, 1997; Sullivan 2000).

LIMITATIONS AND IMPLICATIONS

At the moment, this research is just a single-case study, which is based on one company, one industrial branch, and one interviewee only. However, even the results of a single-case study can be generalizable if they are congruent with an existing theory (Yin, 2009). Earlier research has reported how difficult it is to evaluate IPR assets and R&D, and how information asymmetry exists also in the financial market (Aboody & Lev, 2000). Akerlof's classic paper on adverse selection called "The Market for Lemons" reported already in 1970 the existence of information asymmetry.

Despite its limitations, the case study offers a clear starting point for recommending new thinking in evaluating IPR assets as a family business resource. If those assets are underestimated, an adverse selection can mean that either the private wealth of the family is unnecessarily or over-proportionally used as collateral or, in the worst case scenario, a lot of profitable business remains uncreated due to the lack of finance. If they are overestimated, an adverse selection can mean that the financier takes too high a risk when funding.

An educational policy implication could be that financiers should be educated to see and understand the value of IPR assets more clearly. The same applies to public governmental organizations that offer financial support for start-ups, growth and internationalization of businesses. An industrial policy implication is that it could be useful to create special funding instruments for creative industries where the role of IPR assets is totally different from those in traditional industries.

In family businesses, assuming that the IPR assets are a major part of the wealth, the issue may become relevant in the following ways:

i) The taxation value of the company may be very different if the IPR assets are valued low or if they are valued high. This can have an impact, for example, on gift or inheritance taxes in succession.

ii) The terms in IPO (i.e. becoming publicly quoted) may be very different, if the IPR assets are valued low or if they are valued high.

iii) The views of a buyer and a seller may differ greatly if a family decides to sell its company and if the buyer and seller have very asymmetric information about the IPR asset value of the company.

iv) The credit rating of a family business may be very different if the IPR assets are valued low or if they are valued high. As Eric's case shows the difference of evaluation between his view and the "Fund's" view is enormous. This can harm loan negotiations.

v) In Family business succession, if only some of the children continue the parents' business, the evaluation of IPR assets can become problematic and cause disputes between the siblings. It is important that the siblings all agree on the principles of evaluating the IPR assets.

vi) In some cases, like in a fashion industry, some IPR assets can become obsolete rather soon; or different generations may evaluate the values of IPR assets very differently.

vii) Some IPR assets can be strongly family-related, like a good family name (such as Michelin, Heineken, and Peugeot, in Europe and even globally) as the key asset in branding. In the entertainment business, the Osbournes are a good example of such a family brand.

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START-UP MOTIVATIONS AND GROWTH ORIENTATION OF OWNERS OF FAMILY BUSINESS - A CARE ENTREPRENEURSHIP APPROACH

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Abstract

Comparisons between family business and non-family business are still quite rare in some business areas. The aim of this article is to analyse the start-up motivations and growth orientation of family business in the area of care entrepreneurs. The specific research tasks are: 1) to describe and compare entrepreneurs' start-up motivations and growth orientation between family firms and non-family firms; 2) to describe the relation of the start-up motivations to the growth orientation of manager-owners in family firms and non-family firms. The definition of growth orientation is not unambiguous. In this article it was seen as a subjective orientation of manager-owners of firms, but quite often the focus has been on the firm level and its objective measurements. A survey study directed at the manager- owners of care enterprises (n = 461) was conducted 2005–2006 in Finland. Our first hypothesis concerning the differences in start-up motivations between manager owners of family or non-family firms was supported only marginally. Our second hypothesis as well as our results followed existing research evidence concerning the lesser growth orientation of family business. This lesser growth orientation was not connected to any start-up motivation of the manager-owners of family firms (Hypothesis 3). These results are connected to practical and scientific implications in the family business context.

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INTRODUCTION

Every country has a crucial need for both new enterprises and their successful development. This article discusses start-up motivations and the growth orientation of business operations in the context of family business and non-family business. Do the start-up motivation and the growth orientation of entrepreneurs vary between family business and non-family business?

The definition of motivation varies a lot (see e.g. Koiranen 2007), but traditionally the motivations for starting up a business have been divided into push and pull factors. The founders of new firms may be "pushed" into entrepreneurship through a lack of alternative employment opportunities, or they may be "pulled" by opportunities identified. Storey (1994, 77), for example, has suggested that both influences may be at work, and that their relative impact will vary sectorally, spatially and temporally. Furthermore, it has been claimed that there are no definitive causes for entrepreneurship, but that the process of becoming an entrepreneur is the consequence of reasoning processes, which in turn are closely related to the contingency between individual and external environment (see Huuskonen 1992).

This is true, but do the entrepreneur's own experience and interpretation affect the future plans of the enterprise? For instance, are manager-owners motivated mainly by family-centred goals and the growth orientation is not so important for them? It has been claimed, that in small family businesses, the entrepreneur often has no intention of expanding his or her business (e.g. Hienerth & Kessler 2006; Kotey 2005). In this article we will try answer this question by comparing family firms and non-family firms in one specific industry. Comparison as a method serves better to enhance understanding than focusing only on the owners of family firms themselves.

The branch of business in this article is care, which may induce some specific features for business as a whole, but also for the start-up motivation and the development of the business. At least the following three features can be identified: initially, care, whether formal or informal, has traditionally been the province of families, especially of women. Women have been employed by public or private care organizations, and women in various countries have born most of the responsibility for care. Thus, the care branch is a natural area of entrepreneurship for women even if the service structure orientation leans more towards the private sector. Women' role in entrepreneurship has been lately emphasized and considerable progress has been made in research with respect to their start-up motivation (e.g. Orhan & Scott 2001). Although this generalization may be more revealing of the gender-specific interpretation of different start-up motivations, Nadin (2007) for example, has stated that women want to keep the risk-taking or profit-seeking identity as entrepreneurs invisible.

Secondly, as a phenomenon, care has commonly been associated with altruism and other ethical values. Ethical care values, for instance, have been important in care workers' professional education. One crucial issue is how business or management oriented values and care values can work together. The educational background of care entrepreneurs (e.g. nurses), for instance, does not commonly include business or management oriented education. For instance, the study by Sankelo & Åkerblad (2008) shows that about half of the nurse entrepreneurs had considerable development needs in their managerial role. These development needs in management issues may

ISSN: 1796-9360

also be assumed to have some effect on the growth orientation of entrepreneurs in the care branch.

Thirdly, at least in the Nordic countries as a business area, care has been very firmly guided by national legislation and policy, which may affect the start-up motivation and also the prospects for starting up a business. However, at the Finnish national and local policy level, private services have become accepted solutions to meeting the increasing need for services (Rissanen & Sinkkonen 2005, Rissanen et al. 2010). Municipalities or other public service providers have not had sufficient opportunity to increase their own service provision, and tendering processes have taken place. In addition, the national economic policy has accepted social care services as a potential business area supported and emphasized as a future activity. It may be that certain small scale businesses, such as residential care homes, are not regarded by the Finnish Government as the cornerstones of a thriving economy, as they were, at least partly, in the United Kingdom (UK) during the 1980s (see Andrews and Phillips, 2002, 67). However, health and social services have reached the agenda of Finnish economic policy. (e.g. the Hyvä Project, a strategic project of Ministry of Employment and the Economy). The competitors for such small-scale family businesses have been seen in the large international enterprises or those enterprises owned by national or international voluntary organizations if the family business does not take the challenge of growth seriously.

The aim of article

The aim of this article is to analyse the start-up motivations and growth orientation of family business in the field of care entrepreneurs.

The specific research tasks are:

1) to describe and compare entrepreneurs' start-up motivation and growth orientation between family firms and non-family firms;
2) to describe the relation of the start-up motivation with the growth orientation of manager-owners in family firms and non-family firms.

There is no universally accepted definition of a family business (e.g. Corbetta 2001; Westhead et al. 2002). For instance, the journal editors of special issues on family business have faced the fact that the each article subscribes to a slightly different working definition of a family firm (see Steier et al. 2004, 296). The same holds true of literature reviews, which have been compelled to accept different definitions for the family business, at times with a confusing effect on the results. One attempt to solve this problem has been the "familiness" concept, coined to express how a family firm is described in the question of "how family is a family firm?"(Rutherford et al. 2008,1091).

However, according to Westhead et al. (2002) researchers have often used four key criteria when defining family firms. First, whether a single dominant family group owns more than 50 per cent of the firm. Second, whether the owners themselves perceive their firm as a family business. Third, whether a firm is managed by members of a single dominant family group, and fourth, whether the firm has experienced an inter-generational ownership transition to a second or later generation. One typical feature in family firms is also that members of the manager-owner's family are often employed in the firm. In literature review of this article we accept different family firm definitions, but in the empirical part of this article family business is defined as a business where at least one family member is working in the firm together with the manager-owner.

LITERATURE REVIEW

Many researchers have been interested in business start-up motivations and in growth orientation on a national and international level. This interest has also focused on the family business. Given the aim of this article, the existing literature was divided into two groups: research on the start-up motivation and research on the growth orientation. The emphasis in the literature search was on those publications comparing these aspects of family firms and non-family firms when available. Other comparison of family and non-family business has focused, for instance, on organizational culture issues (e.g. Zahra et al. 2004) or international strategies (e.g. Abdellatif et al. 2010).

Research concerning the start-up motivation

Firstly, the concept analysis of motivation by Moody and Pesut (2006) proved that there are many definitions of motivation in the literature and yet none of them is universally accepted and applied. Secondly, different studies of start-up motivation have focused on different factors, making it impossible to find an exhaustive description of motivation or different factors affecting start-up motivation. The results are often connected to a certain culture or a type of enterprise. For instance, Amit and coworkers (2001) examine the role of money in venture decisions. Their findings do not support the common perception that money is the only, or even the most important, motive for entrepreneurs' decisions to start new ventures. Other motivations, such as innovation, vision, independence and challenge were more important. However, Turkey's survey showed that small and medium-sized enterprise owners are driven more by income rewards than intrinsic rewards (Benzing et al. 2009).

Shane et al. (2003, 272–273) suggest that human motivations, in particular the need for achievement (= nAch), locus of control, desire for independence, passion and drive might influence the entrepreneurial process. They propose that entrepreneurship is a process that begins with the recognition of an entrepreneurial opportunity and is followed by the development of an idea for seizing that opportunity, evaluation of its feasibility, the development of the product or service, the assembling of human and financial resources, organizational design and the pursuit of customers. They suggest that some or all of the motivations influence the transition of individuals from one stage of the entrepreneurial process to another. Motivations are not the only considerations that influence these transitions: cognitive factors such as knowledge, skills and abilities also matter, as do opportunities and environmental conditions. De Clercq and Arenius (2006, 350) argue that individuals' varying possession of knowledge, as well as their varying exposure to external knowledge, has an impact on the decision to pursue an entrepreneurial career. They found that believing that one has the necessary skills for starting a new business is a crucial factor in increasing the likelihood of business start-up activity. Their results also show that the individuals' educational level had some effect on the likelihood of them starting a business.

ISSN: 1796-9360

In fact, autonomy has been considered to be one of the most important drivers of self-employment. However, van Gelderen and Jansen (2006, 29–30) argue that starters of small businesses differ in their relative emphasis on the reasons why they enjoy autonomy. Many entrepreneurs enjoy autonomy for the sake of decisional freedoms, but there are also people who need freedom as a necessary condition for the fulfilment of other ambitions. Some are motivated by negative freedom: they dislike or are currently experiencing a difficult boss or irksome rules. Some emphasize the fact that self-employment offers the opportunity to work in accordance with one's own goals, values and attitudes, while others emphasize the opportunities that self-employment offers for being in charge, for directing and for leading instead of being led.

Schjoedt and Shaver (2007) studied whether the potential for increased life satisfaction pulls or whether job satisfaction pushes individuals towards an entrepreneurial career. They found no significant mean differences between nascent entrepreneurs and the comparison group regarding life satisfaction, whereas regarding job satisfaction they found a significantly higher mean for the nascent entrepreneurs than for the comparison group. However, their job satisfaction results were the opposite of what would have been expected on the basis of the push hypothesis. There was powerful evidence against nascent entrepreneurs being pushed toward an entrepreneurial career due to low job satisfaction in their pre-entrepreneurial employment.

Care branch specific research has also increased nationally (e.g. Heinonen et al. 2006) and internationally, but internationally research has mainly concentrated on nurses as entrepreneurs. Andrews and Kendall (2000, 903–904) investigated nurses who left the British National Health Service (NHS) to own and run residential care homes for elderly people. The most common reason for choosing to run a residential care home was the desire to be one's own boss, which can be categorized as a motivation based on employment expectations. Money-motivated responses were less frequently cited, probably because they might cast the proprietors and their homes in an ethically less acceptable light. No proprietors reported disillusionment with the pay conditions of NHS employment as a push factor in their decision to change careers. The pull factors of the residential care sector seemed the dominant reasons for starting up a business.

Wilson, Averis and Walsh (2003, 242–243) studied the influences and experiences of becoming a nurse entrepreneur in Australia. They suggest that most nurses and midwives were not in business due to unemployment or because they were redundant or redeployed. At the same time, work satisfaction, being able to use specific skills and abilities and being able to contribute to making a difference in health outcomes for individuals were important for them. The potential of increased income was an attraction for many nurses, although rapid financial returns were not guaranteed. Similar results were reported in the study by Rosalie Caffrey (2005) concerning becoming nurse entrepreneur in Oregon, USA.

Given the aim of this article and its empirical context it is important to note that the comparisons of start-up motivation between men and woman and gender specific entrepreneurship research as a whole have gained increasing visibility (e.g de Bruin et al. 2006), but comparative surveys concerning start up between family business and non-family business are rare, although the influence of the family in start-ups has well recognized (e.g. Naffziger et al. 1994).

ISSN: 1796-9360

Research concerning growth orientation

The literature on growth of firms is much more extensive than that on growth orientation. For instance, comparison of rapid growth firms and their slow-growth counterparts has been much researcher in recent decades. Earlier literature reviews of research concerning growth of enterprises can be also found (e.g. Barringer et al. 2005). The ways to grow and indicators of growth may vary between enterprises. For instance, Matthew W. Rutherford and co-workers (2008) note in their summary of empirical studies on family business and performance that growth has been measured by examining the percentage by which sales revenue had changed over the last 3 years or examining changes in the firms' size (specially number of full-time employees). In fact, quite often growth is interpreted as one variable of performance, but it has also been claimed that the measures based on growth are inappropriate as success indicators for many small family business (Hienerth & Kessler 2006).

However, for the purposes of this study the most relevant research concerns the growth-orientation of the entrepreneurs, not the growth orientation on the firm level (e.g. Dwyer et. al. 2003). The definition of growth orientation is not unambiguous and the term has some variants (e.g. growth plans Kozan et al. 2006, growth motivation Delmar & Wiklund 2008, business goals Getz & Carlsen 2000, growth intentions Cliff 1998). In this study growth orientation is seen as a fairly stable attitude to growth among entrepreneurs. One finding of Delmar and Wiklund (2008) was that growth motivation was relatively stable over time.

Has the growth orientation a causal effect on firm growth? This essential question for business probes in psychological language the importance of attitudes in predicting behaviour in business. Most research has supported that growth orientation have a causal effect on firm growth (see. e.g. Wiklund et. al. 2003). For instance, Delmar and Wiklund (2008) have stated on the basis of their Swedish small firms sample that growth motivation is a relevant predictor of growth and an important variable for inclusion in studies on small firm growth. Interesting research has also been done on the connection between expected consequences of growth and attitude to growth. The study by Wiklund et al. (2003) showed that financial gain is not the main determinant of attitude toward growth. Their findings suggest that other expected outcomes of growth, for instance, managers' ability to keep full control over the operations of the firm, the firm's degree of independence in relation to external stakeholders, and its ability to survive crises may have at least a minor effect on growth attitudes. Another relevant finding for this study was that expectations concerning the effect of growth on employee well-being are the single most important determinant of overall attitude toward growth.

A second interesting question for this study concerns the connections between start-up motivations and growth orientation of entrepreneurs. The literature so far has examined (for instance) the effect on growth orientation of gender (Cliff 1998) or past growth (Delmar & Wiklund 2008). In addition, the survey by Birley & Westhead (1994) showed that whereas new businesses are founded by individuals with significantly different reasons leading to start-up, once the new ventures are established these reasons have a minimal influence on the growth of new ventures. Interestingly, the model of environmental and personal factors influencing growth intentions and actual growth formulated by Kozan, Öksoy and Özsoy (2006, 117) includes variables similar to those reportedly underlying the start up motivation (e.g. entrepreneur's background, entrepreneur's achievement need).

Altogether, the findings below are also very interesting in the context of family business. A typical feature of small family firms seems to be a desire to retain managerial control in the hands of family members. In family firms the desire for stability, self-sufficiency, independent ownership and the retention of managerial control by family members may be just as important as the desire for expansion (Westhead 1997). The reasons for less growth orientation in family firms than in non-family firms may vary, but one significant feature of family firms seems to be that decision-making is based on rational economic assumptions and emotion-based family considerations (Cromie et al. 1999). The family members' well-being may be an even more important determinant for entrepreneurs' growth orientation than the effects of growth on employees' well-being. Furthermore, family businesses have been shown to have several emotional aspects associated with their business, such as hereditary management and attention to kinship ties (Fletcher 2002). Hall (2002) argues that the strategies of small family firms develop as a result of context-specific rationality configurations.

Family firms seem to maintain a long-term orientation when crafting and executing organizational strategies, too. However, it is also suggested that increasing environmental pressures often force family firms to take a more entrepreneurial stance as the firm matures (Kreiser et al. 2006). This means that firms start to make riskier investments and undergo a transition from family management to professional management. This also applies to care enterprises when the international care companies are putting competition pressure on small-scale family businesses. Environmental pressure to grow exists for all enterprises, and even the start up motivation varies between entrepreneurs.

In light of the existing research on start up motivation and growth orientation some conclusions can be drawn for this study:

1. Study designs for researching motivations for starting a business have varied. Some studies have focused on some specific motivations, others have done inductive analyses of start-up motivation based on data. Many different start-up motivations have been identified and even some branch specific research can be found, but the research evidence on comparison between family business and non-family business is insufficient.
2. The existing literature tentatively shows family firms to be less profit and growth oriented than non-family firms. No such research could be found on the care business branch.
3. It also seems that the literature on research evidence for start-up motivations connected to the growth orientation of the enterprise is still quite insignificant, at least in the context of family business. Research has more often concentrated on other variables such as gender or previous growth connected to growth orientation.

On the basis of these conclusions three hypotheses were formulated, which are tested emirically.

1) There are differences in reasons for starting up between family firms and non-family firms.
2) The growth orientation of entrepreneurs in family firms is less than in non-family firms in the care branch.
3) Start-up motivation is not connected to the growth orientation of manager-owners in family firms.

METHODOLOGY

The empirical part of this study focused on enterprises providing institutional, residential services or home care services for different groups (e.g. children, young people, disabled people, mentally ill people or elderly people). The data were collected as a part of a questionnaire mailed to the manager-owners of care enterprises at the turn of the year 2005/2006 (N=1275). One reminder was sent. The survey contact information was obtained from the Finnish National Research and Development Centre for Welfare and Health (STAKES), which maintained an extensive register of private service providers in health and social care services.

The sample was a so-called total sample, and the criteria for the sample were 1) main field of service was home care or institutional or residential care for different client groups; 2) manager-owner of the firm was identifiable (i.e. not an international company or foundation). Thus the focus of the empirical part of this article is enterprises owned and run by a private person.

The response rate to the questionnaire was 52 per cent (n=601). The number of respondents of non-self-employed was 461. The following results concern those respondents. The total sample did not include those questionnaires which were undelivered because of unknown address (n=80) or questionnaires returned blank because the business had not started or was no longer operational (n=30). It is also probable that many enterprises with an unknown address had closed down.

The questionnaire mainly comprised multiple choice questions and some open-ended questions. The background information of entrepreneurs and their firms included questions concerning the gender of entrepreneurs (0= woman, 1=men), age, duration of being an entrepreneur in years, the number of staff, and a subjective evaluation of profitability (1=excellent, 2=good, 3=satisfactory, 4=poor). The questionnaire was planned by the members of research groups, but some of the questions had been used in earlier national surveys on health and social service enterprises.

The description of start-up motivations is based on an open-ended question. Responses to this question were analysed using quantitative content analyses. (0= not mentioned, 1=mentioned). The basic distribution of internal and external factors influencing a person’s intrinsic motivation coming from the classic motivation theories (see Herzberg 1966, Hackman & Oldham 1980) was used in the analysis of the start-up motivations. The question of growth orientation of entrepreneurs was as follows: Which of the following options best describe the situation of your company? (1= we have a strong desire to expand, 2= we aim to expand within the realms of possibility

3=we don't have any desire to expand).

In the results we present the means and standard deviations of variables in family and non-family firms groups. T-test was used to determine whether the mean differences were significant. Spearman's correlation was used in the correlation analysis, because some of the variables were dummy variables.

An analysis of non-respondents showed that respondents followed the regional distribution of social service enterprises in Finland. Most of the social service enterprises are located in south or west Finland. However, the response rate of manager-owners of home care enterprises was somewhat lower than the manager-owners of institutional or residential care units. The percentage of home care enterprises in the sample was 42, but in the final data the figure was 33 per cent. The data collection was part of the Reaktioketju Project, funded by the EQUAL Initiative of the European Social Fund.

RESULTS

Background information on the entrepreneurs and enterprises

Almost eighty per cent (79) of the entrepreneurs were women, and the average age of the owner was 48 years. However, the share of male entrepreneurs was higher than the proportion of male employees in public care services. This may imply that in care provision entrepreneurship is a more tempting arena for men.

The care companies were relatively small: on average they employed 8 people. Almost half (49%) of them were family enterprises. Most often a spouse (48%) was mentioned as a member of the family business. Then the most common answers were many family members working in the enterprise (32 %) or a child or children (10%). The number of men as manager-owners of family firms was higher than in non-family firms. The manager-owners of family firms had been entrepreneurs on average for almost nine years, while the corresponding figure for the manager-owners of non-family firms was less than eight years. The profitability of the business estimated by the manager-owners of the firms was higher in family firms than in non-family firms. It seems that the family firms had been in operation longer than the non-family firms and their profitability was slightly better.

Table 1. Background information on manager-owners and their firms in family firms and non-family firms. Means, Standard Deviations and T-test.

	Family firm context		Not family firm context		T-test
	Mean	SD	Mean	SD	
1. Gender of manager-owner	. 264	.442	.150	.357	-3.060**
2. Age of manager-owner	48	8.615	47	8.295	-.635
3. Time as an entrepreneur	8.93	6.078	7.56	4.629	-2.721**
4. Number of employees	7.13	8.217	8.00	8.479	1.121
5. Profitability of the firm	2.22	.648	2.35	.670	2.216*

* correlation significant at the 0.05 level
** correlation significant at the 0.01 level

Start-up motivations and growth orientation

Almost of half (45%) of respondents had mentioned one, 30% two and 13% three start-up motivations. Eight percent reported no motivations in response to an open question. Table 2 shows that the most of the reasons for starting a care enterprise were similar to those in other branches, such as the need for independence and personal interest. Industrial-based reasons for start-ups included the desire to provide better care, the growing demand for care services, and the need to offer a choice to the public sector. The need to employ oneself was also mentioned fairly often. Only five per cent of the entrepreneurs reported a desire to earn a greater income as the reason for starting their own business.

Our first hypothesis concerns the differences in start-up reasons between family firms and non-family firms. Internal motivations were more often mentioned than external motivations in both groups. However, whether the firm was a family firm or a non-family firm made only little difference between start-up motivations. The three main reasons for starting up were same in both groups. However, the motive of offering an alternative to the public sector was more common in family firms than other types of firms, but the need or demand for the service was not so important to the manager-owners of family businesses than to those whose families did not participate in the business.

Table 2. Start- up motivation and growth orientation of manager-owners of family firms and non-family firms. Means, Standard deviations and results of T-test.

	Manager-owners of family firms		Manager -owners of non-family firms		T-test
	Mean	SD	Mean	SD	
Internal motivation:					
Need for independence	.37	.483	.33	.472	-.701
Desire to develop and offer better care	.24	.428	.19	.395	-1.180
To offer an alternative to the public sector	.16	.364	.09	.289	-2.022*
Dream / personal interest	.11	.316	15	.354	1.042
Desire for more change / to try something new	.07	.261	.10	.295	.837
Desire to develop and exploit professional skills	.06	.244	.06	.245	.022
External motivation:					
Need to employ oneself	.25	.433	.29	.454	.901
Need/demand for the service	.08	.276	.15	.354	2.055*
To have a better income	.07	.253	.05	.209	-1.000
Entrepreneur family / entrepreneur spouse	.05	.216	.02	.134	-1.734
Own earlier entrepreneurship	.00	0.70	.01	.117	.938
Growth orientation	2.406	.614	2.239	.696	-2.703**

* correlation significant at the 0.05 level

ISSN: 1796-9360

** correlation significant at the 0.01 level

Our second hypothesis concerns the growth orientation in family businesses. The growth orientation of the business was somewhat lower among the manager-owners of family business firms than others. However, both groups preferred the aim to expand within the realms of possibility.

Growth orientation with start-up motivations and background information

Our third hypothesis concerns the growth orientation of entrepreneurs and its connections to start-up motivations. Table 3 presents the correlations of growth orientation with start-up motivations and with background information.

Table 3. Growth orientation with start-up motivations and background information in the family firm and non-family firm context, correlations.

	Growth orientation	
	Family firm context n= 202	Non-family firm context n=211
Need for independence	-.058	-.109
Desire to develop and offer better care	-.123	-.173*
Dream / personal interest	.020	-.139*
To offer an alternative to the public sector	-.020	-.041
Desire for more change / to try something new	.037	-.059
Desire to develop and exploit professional skills	-.080	-.113
Need to employ oneself	-.058	.193**
Need/demand for the service	.074	-.059
To have a better income	-.052	-.061
Entrepreneur family / entrepreneur spouse	-.050	.052
Own earlier entrepreneurship	.073	.030
Gender	.001	.001
Age	.118	135*
Time of being entrepreneur	.186**	.165*
Number of employees	-.208**	-190**
Profitability	.051	.059

* correlation significant at the 0.05 level
** correlation significant at the 0.01 level

Growth orientation was not connected to any start up motivation in family firms. The situation was partly the same in non-family firms. Exceptions were relations of growth orientation with need to employ oneself, with entrepreneurs’ desire to develop and offer better care and with entrepreneurs’ personal dream to start a business. If the entrepreneur mentioned personal need to employ oneself as a start-up motivation her or his growth orientation was less than if this motivation was not mentioned. On the other hand, the attempt to develop care was related to positive growth orientation. The dream of the entrepreneur also increased the growth orientation.

The connections between growth orientation and background information were stronger in both firm types than the connections between growth orientation and start-up motivations. Longer experience of entrepreneurship did not support growth orientation, but greater number of employees supported it more than the opposite in both firm types. However, higher age of entrepreneurs was connected to less growth orientation in non-family firms.

ISSN: 1796-9360

DISCUSSION AND CONCLUSIONS

Summary of results

The results showed that the majority of care entrepreneurs in Finland, too, are women. However, the percentage of male entrepreneurs was higher than that of male employees in the care sector. Men's role was more important in family firms than in non-family firms. It seems that men work together with their spouses when they start a care business. Probably the men are more often in the position of the manager-owner of the firm than their wives, who take care of the professional care in the family business. Altogether, the firms were quite young: the mean age of a firm was eight years. This shows that the care business in one Nordic country has not yet reached stagnation level, but is providing business opportunities for entrepreneurship, especially for women. Comparison with Finnish national reference values shows that the growth orientation was also almost at the same level as that of other entrepreneurs in other branches.

As a whole, the picture of start-up motivations of entrepreneurs emerging from these results is similar to that found in other studies in other branches. The need for independence was the most frequently mentioned reason for starting up a business. Desire to provide better care, growing demand for care services, and need to offer an alternative to the public sector can be interpreted as care branch-specific start-up motivations. Our first hypothesis concerning the differences in start-up motivations between manager-owners of family or non-family firms was supported only slightly. The three main reasons for starting up were the same in both groups. However, motive of offering an alternative to the public sector was more common in family firms than in other types of firms, but the need or demand for the service was not so important to the manager-owners of family businesses than to those owners whose family did not participate in the business.

Our second hypothesis and our findings concurred with the existing research evidence regarding the lower growth orientation of family businesses. This growth orientation was not connected to any start-up motivation of the manager-owners of family firms (Hypothesis 3). Instead, the attempt to develop care and the dream of being an entrepreneur were related to positive growth orientation and need to employ oneself to negative growth orientation among entrepreneurs in non-family firms.

Implications for practice and research

The research results, which showed that the need or demand for the service was not such an important start-up reason for the manager-owners of family firms as for other kinds of firms, or that the growth orientation was lower in family businesses than in other kind of enterprises are important for family business practice as well as for care practice. The need or demand for the service should be taken better into account when a family business is planned, because for a successful business sufficient demand for services is very important. It is important at a very early stage to identify those care enterprises which are established on a realistic and sustainable basis and to focus societal support on these enterprises.

In addition, low desire to expand in a family business may sometimes be a threat to the continuity of the business. In the care sector, bigger firms have lately succeeded better than smaller firms in tendering processes between municipalities and firms. Partly the reason for this has been the reality that the smaller firms do not have the capacity to take part in the tendering processes without networking with other firms. For family businesses networking may be a challenge, because constant networking may affect the basic values of family firms. At least, national small business policy should recognise even more this current trend in the care business sector. In addition, in business education at all levels this low growth orientation and the reasons for it could be paid more attention. What, for example, are the advantages and disadvantages of networking for one specific family firm and its culture? How could such disadvantages be avoided?

Some scientific implications can be also drawn in light of the literature review and the empirical findings. Firstly the definition of growth orientation is not unambiguous. In this article it was seen as a subjective orientation of manager-owners of firms, but quite often the perspective has been that of the firm and its objective measurements. The subjective growth orientation of the manager-owners of family firms is extremely relevant because it can be assumed that a change of manager is not so often the solution in family firms if growth does not achieve the expected level. Secondly, the family business aspect should be taken into account when empirical surveys or models are made concerning growth orientation or actual growth. The models are still frequently too general. For instance, it can be assumed that need to employ oneself as a start-up motivation is not a good predictor of growth orientation in family firms, but this may be the case in non-family firms.

Limitations of the study and future research

The results of this article are based on the subjective views of manager-owners of care firms about their start-up motivations and their orientation to growth of the business. It would be useful to relate objective measurements of economic success to subjective attitudes. In addition, comparative research between different branches of industry is needed.

The time frame of this study is a second limitation. It is easy to agree with Low and MacMillan (1988) who in their recommendation for entrepreneurship research highlighted longer time frame studies than cross-sectional “snapshots”, which is the case in this study, too. Follow-up is needed because different strategic issues (e.g. growth) are important as firms, branches or environment issues evolve. Moreover, the entrepreneurs’ interpretations of start-up motivation may change over time.

The response rate to the questionnaire was fifty-two per cent. The analysis of non-respondents showed that manager-owners of small home care firms did not respond to the surveys as often as the manager-owners of residential or institutional units. This may mean that the results concerning profitability are somewhat more positive than the actual situation in reality. In addition, the location of the enterprise in a rural or urban area was not considered even though prior survey based family business research has stressed the meaning of regions and cultures for start-up motivations or growth orientation (e.g. Getz & Callsen 2000). Nevertheless, the data will serve as a basis for the analysis of the start-up motivations and growth orientation of manager-owners of care firms and their connections to each other. Future research should focus its hypotheses more on the causality issues between variables (Low and MacMillan 1988). In fact, descriptive studies are important first steps and useful if the data collection is conducted in unfamiliar or non-traditional entrepreneurial branches (see de Bruin et al. 2007, 324) which is still the case with the female-dominated care branch entrepreneurship, at least in the Nordic countries.

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HOW DOES FAMILY MANAGEMENT AFFECT FIRM PERFORMANCE: EVIDENCE FROM TAIWANESE FIRMS

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Abstract

This study used the panel data of 465 Taiwanese listed companies by applying both accounting and market-value indicators to an examination of family management's influence on firm performances. The empirical results show that family firms in Taiwan have performed better than non-family firms. The combination of equity ownership and management right has helped family firms reduce agency cost and enhance firm value in the long run. As for family management, the empirical results suggest that if the founder serves as the chairman and CEO at the same time, it is most beneficial to the firm's performance. When the position of CEO is passed to a hired manager, it may enhance firm performance in the short-run. On the other hand, when the position is passed down to a descendant, it may be conducive to firm value in the long-run.

Key words: Family management, Firm performance, Founder, Descendant.

INTRODUCTION

The family firm is a common type of organization in advanced economies, such as Europe and the United States, and is even more popular in Taiwan and other Asian emerging countries. Anderson and Reeb (2003, 1301) study 403 companies in the S&P 500 industrials, and find that more than one-third of them are family firms. Barontini and Caprio (2006, 689) examine 675 listed companies in 11 European countries, and find that with a 10% voting right as the control threshold, 53% of the sampled companies are controlled by families. Claessens, Djankov, and Lang (2000) study 2,980 listed companies of 9 countries in East Asia, and find that with a 10% voting right as the control threshold; more than 50% of the companies are controlled by families. Yeh, Lee, and Woidtke (2001. 31) examine 208 listed companies in Taiwan, and find that with a 10% voting right as the control threshold, 81% of the listed companies are controlled by families. If a 20% voting right is used as the control threshold, 51% of these subjects would have been considered family firms.

Although the family firm is a popular business model in the world, the issue of whether or not the family firm is an effective business system has not yet yielded a consensus conclusion. Anderson and Reeb (2003, 1301) find that family firms perform better than non-family firms. James (1999) proposes that family firms have a better long-term vision in investments and, hence, yield better returns. Barontini and Caprio (2006, 691) argue that family firms perform better than non-family firms for European companies. Villalonga and Amit (2006, 394) study the Fortune 500 companies, and find that family firms perform better than non-family firms. In contrast to the above findings, Perrow (1972) point out that family firms are inefficient and that if family members account for the majority of the senior management, the operating efficiency declines. The more serious this situation, the worse the firm performance becomes.

In family firms, the ownership is often concentrated in the hands of the family as the major shareholder, and the family firms tend to have both ownership and management rights. Therefore, family firms have the capacity and the incentive to serve the interests of the family at the expense of the firm, which leads to the Entrenchment Hypothesis (Jensen and Ruback, 1983). Fama and Jensen (1983) indicate that shareholders with both ownership and management rights can seek personal benefits by trading on the interests of the firm; as a result, the firm performance deteriorates. Shleifer and Vishney (1997, 760) conduct a study also proving that the controlling shareholders with a relatively high level of ownership and management rights tend to seek personal benefits by jeopardizing the interests of minority shareholders.

On the other hand, it has been argued that ownership concentration is not necessarily an inefficient structure. According to the agency-cost hypothesis, the combination of ownership and management rights of a family firm may mean the strong alignment of family interests and firm performance. In other words, family members have high motivation to enhance firm performance if they are involved in the management.

Demsetz and Lehn (1985) suggest that the combination of ownership and management rights is advantageous because major shareholders can mitigate the problems associated with agency costs, while family management can reduce the agency problem significantly. Therefore, with the reduction of agency costs, family management is expected to be beneficial to firm value. Burkart, Panunzi, and Shleifer (2003) demonstrate that management by family members can improve firm performance to a certain degree. However, this benefit may be offset if the management consists of hired managers. Martinez, Stohr, and Quiroga (2007) argue that the active involvement of family in management responsibilities can enhance firm performance.

In Taiwan, the ownership of family firms is concentrated in the hands of family members; hence, family members are usually involved in firm management, and the long-term involvement has strengthened family firm reputation and employee loyalty to family members. The family members can establish good relationships with minority shareholders, employees, and customers. On the other hand, when family members serve in an important position, they can fail to realize the benefits attributable to professional managers or can trade in the goal of maximizing firm profits for personal gains. All these factors may contribute to a worsening of firm performance. Whether the active involvement of a family in firm management would result in benefits or barriers has received scant attention in previous studies. Furthermore, there is little evidences on the influence of family management on firm performances in Taiwan[1]. Therefore, this paper aims to gain an understanding of the effects of family management on firm performance in Taiwan, so as to provide references to firms in other Asian emerging markets.

Family firms in Taiwan have been carrying on Chinese tradition, including the importance of personal relationships, a focus on harmony, an extension of patriarchy (succession by the male heir apparent but not necessarily by the capable), authoritative personalities, lack of trust in outsiders, relationships based on trust and loyalty, and family mottos as the firm philosophy. Many companies in traditional industries remain family-run businesses, which is a characteristic in the early agricultural-based society of Taiwan. In this type of family firm, it is common that the founder acts both as the chairman and the CEO in the early stage, and later intentionally passes the position of CEO to his descendant after the firm gradually develops and becomes well-established. Then, the founder remains the chairman to supervise the management by the young generation and to help guide the firm decision-making. Examples of this practice include some famous family groups in Taiwan such as the Far Eastern Group and the Taiwan Formosa Group. However, for high-tech industries that emerged in the 1980s, ownership may be passed down to the second generation whereas the transfer of management rights follows a different path. Because entrepreneurship in a high-tech company requires a high degree of professional knowledge, in general, the company is often established by technical teams with very short and fast product life cycles. As a result, it is difficult for the founders to pass the management rights to the second generation, and they often pass the position of CEO to hired managers. Examples of this practice include the Foxconn Group, the Asus Group, and the Acer Group.

Which model can generate better performances without damaging the value created by the founders? This is an important empirical issue that, faced by family firms in Taiwan and other Asian countries, merits examination. As corporate governance is not well developed in Asia, whether outside directors and unaffiliated blockholders actively play important roles in monitoring remain an essential corporate-governance issue also meriting further investigation. Jara-Bertin, Lopez-Iturriaga, and Lopez-de-Foronda (2008, 146) find that increased contestability over the control of the largest shareholder increases the value of family-owned firms. Their results also show that in

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firms in which the largest shareholder is a family, the presence of a second family shareholder reduces firm value. Anderson and Reeb (2003, 1314) discover that outside directors are more prevalent in non-family firms than in family firms, and that the ability of outsiders to monitor family activity is an important attribute in minimizing family manipulations.

In our study, we have used panel data from 2002 to 2006 for 465 family and non-family listed firms on the Taiwan Stock Exchange. The results strongly show that the performances of family firms are better than those of non-family firms in Taiwan. In the analysis of whether differences among family members will affect firm performances, we find that when the founder serves as the CEO, regardless of whether or not accounting performance (ROA) or market-value performance (Tobin's Q) is applied, this type of structure is most beneficial to firm performance. When the CEO is served by a descendant, it is also beneficial to performance. This finding differs from those of Villalonga and Amit (2006, 385), which suggest that U.S. firm performance declines when a descendant acts as the CEO. We also find that the scenario in which the founder serves as both the chairman and the CEO is the best combination for firm performance. When accounting performance (ROA) is used, the second best combination is when the founder acts as chairman and a hired manager acts as the CEO. However, when Tobin's Q is used as the performance measure, the second best combination is when the founder acts as the chairman and a descendant acts as the CEO. This finding suggests that family firms are potentially long-term value maximization advocates and that family management does support family firm's long-term performance. In addition, our study shows that both outside directors and unaffiliated blockholders play an active role in the elimination of information-asymmetry problems, which leads to a better performance for Taiwanese family firms.

LITERATURE REVIEW

Definition of "family firm"

Previous studies have shown that different definitions of 'family firm' may lead to different empirical findings. On the basis of the different definitions, the influence of family ownership on firm value would vary. Hence, the use of an appropriate definition plays an important role in the study of family performance. Mok, Lam, and Cheung (1992) defined 'family firm' as a scenario in which the total ownership holdings of either family members or the companies established by the same family's ownership exceeds 10%, and in which either these family members or these companies hold seats on the board. Burch (1972) indicates that if any individual or family member owns more than 4% in equity and holds a seat on the board, the firm is a family firm. Anderson and Reeb (2003) suggest that family firms should be defined according to the following conditions: (1) continuous ownership by family members; (2) family occupation of seats on the board.

Most of the above literature defines 'family firm' on the basis of two factors: ownership percentages and board-seat occupancy. Many family firms in Taiwan are in fact conglomerates, while spouses and relatives undertake management responsibilities or hold seats on the board. Therefore, this study defines 'family firm' as a firm that meets one of the following two conditions: (1) the total family ownership (including spouses and family members three-times removed) exceeds 10% and involves occu-

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pancy of board seats; or (2) more than half of the board seats are held by family members.

The advantages and disadvantages of family firms

In Taiwan, many family-run firms stand in contrast to the firms in advanced economy that operate under ownership diversified among a large number of shareholders and that have relatively concentrated equity ownership. Burkart, Panunzi, and Shleifer (2003) indicate that ownership concentration empowers family members to achieve their goals better than other shareholders can. Silva and Majluf (2008) also find that family ownership adds value to the firm at lower ownership concentration, and this contribution is large when the family becomes highly involved in management. Family control may reduce or even completely eliminate the agent problems between shareholders and managers. Since the wealth of family members is closely linked to firm value, family members have strong incentives to supervise managers and to improve firm performance. Maury (2006, 321) shows that family control can reduce the classical agency problem between owners and management, but can give rise to conflicts between the family and minority shareholders when shareholder protection is low and control is high. In addition, because family members are long-term presences in a given business, they tend to have a longer investment horizon than is the case with other types of investors. In other words, they are more willing to practice long-term investment plans. Casson (1999) and Chami (1997) argue that family firms treat the firm not as wealth, but as an asset for their descendants. The survival of the firm is the main concern of the family, which implies that family members support corporate-value maximization in the long run. James (1999) and Stein (1989) suggest that families tend to have a long-term investment horizon, in contrast to other types of shareholders who focus chiefly on short-term or immediate profits and who lack a long-term vision. With their long-standing presence in their business, families can establish a reputation that creates intangible value for their products and services, as well as a positive image in the eyes of shareholders. Therefore, family reputations are likely to create sustainable economic benefits.

On the other hand, ownership is cash-flow right; this may create a situation where family firms have greater right-based capacity and greater incentives to benefit the family at the expense of firm performance. Demsetz (1983) proposes that family firms may, in choosing non-monetary benefits, remove resources from profitable projects and damage firm performance. Demsetz and Lehn (1985, 1162) point out that the Disney family obtains non-monetary gains by influencing the policies of the firm, in order to satisfy the needs of the family, rather than to maximize the profits of the firm. Family firms that pursue self-serving ends often choose the second-best policies, so that the performances of family firms are worse than those of non-family firms. Cucculelli and Micucci (2008, 18) indicate that inherited management within a family negatively affects the firm's performance, and that this decrease is concentrated among the good performers.

Many studies have also emphasized the complexity of family firms in the past. Davis (1983) and Lansberg (1983) point out that family firms face many unique challenges when family members and other entities share firm value and family characteristics. These challenges include balancing between family ownership and operating efficiency, as well as the problem of succession. The more important problem is the typical predicament that the founder faces; that is, whether to pass the management positions to descendants or to hired managers. Family firms usually prioritize family members when selecting managers. Hence, a more capable, qualified, and competitive hired manager may be neglected. Gomez-Mejia, Nunez-Nickel, and Gutierrez (2001) propose that, when selecting their managers or directors, family firms would strive to obtain or to strengthen firm control by erecting barriers meant to prevent entry by a third party. This is detrimental to management and firm value. Shleifer and Vishney (1997) argue that even if major shareholders of family members are no longer competitive or qualified, they may still hold key positions in the management. In addition, families tend not to trust others, and tend to be less likely to establish good relationships with other major non-family shareholders. The complicated relationships among the family members may also lead to conflicts, damaging business reputation in both the eyes of consumers and the eyes of shareholders. Andres (2008, 431) show that only family firms in which the founding family is still active either on the executive or the supervisory board have better performance.

To sum up, family firms have certain competitive advantages but also suffer from some disadvantages due to family attributes. Some recent literature has indicated that the performances of family firms in developed countries are superior to the performances of the corresponding non-family firms (Anderson and Reeb, 2003; Villalonga and Amit, 2006; Barontini and Caprio, 2006). In Taiwan, among the top 20 groups in which one half of the group is owned by families, total revenues account for more than 50% of GNP[2]. This statistic raises the important question of whether or not the performance of family firms is better than the performance of non-family firms in Taiwan. Based on the continuous trend of Taiwan’s family firms, this paper proposes the following hypothesis:

H-1: In Taiwan, performances of family firms are better than those of non-family firms.

Influence of family members’ management involvement on firm performance

If a family member serves as the CEO, the unique contribution of family traits[3] is unattainable by non-family members. Morck et al. (1988) suggest that a family member who serves as the CEO would bring innovations to the firm and enhance firm value. Davis, Schoorman, and Donaldson (1997) find that a family member serving as the CEO would have a strong identification with the firm and consider firm performances an extension of personal welfare. Anderson et al. (2003) indicate that family members’ long-term service in key management positions could create a powerful positive reputation for companies and could help family members to improve firm performance. Therefore, family members’ active involvement in firm management may result in better performances than non-family firms. Burkart, Panunzi, and Shleifer (2003) point out that when family members are more involved in management, firm performance may be enhanced. Maury (2006, 321) argues that active management by family members can bring higher profitability than is the case with non-family firms; whereas passive management by family members does not affect firm profitability.

Families are usually the major shareholders of family firms, and indeed, most of the ownership might fall to just a few family members. If a family member acts as the CEO of the firm, it means that the family has the absolute power in decision making. The firm decision-making may even be in alignment with family interests, and the maximization of firm value may be neglected. If a family member serves in the position of CEO owing to limited human capital, to family member insufficient competence, to inappropriate training of family member, to cronyism, or to ignorance of professionalism, a loss of outside talent and a worsening of firm performance may result. Thus, firms need to bear in mind the opportunity cost in association with the loss of hired managers who are more capable, qualified, and competitive than family managers. Hillier and McColgan (2005) show that a family member is less likely than a hired manager to be removed from the office of CEO, even when the family member exhibits a verifiably poor performance. Smith and Amoako-Adu (1999) and Perez-Gonzalez (2001) point out that a family descendant's occupation of a family firm's CEO position can have a negative effect on stock prices. Hillier and McColgan (2005) find that when a family member leaves the position of CEO, and the firm announces that a non-family member will take up the position, both operating performance and stock price will increase.

Many scholars have examined the influence that family-member occupancy of CEO positions has on firm performance, and have compared this influence with the corresponding influence attributable to non-family members' occupancy of CEO positions. Does the positive effect of founders require that they occupy the CEO position in the firm? Anderson and Reeb (2003, 1310) use ROA as the performance indicator, and find that firm performance is the best when the founder acts as the CEO, followed by the situation where a descendant serves as the CEO. If Tobin's Q is used as the performance indicator, the results show that firm performance is the best when the founder acts as the CEO, followed by the situation where a hired manager acts as the CEO. Barontini and Caprio (2006, 694) prove that whether Tobin's Q or ROA is used as the performance measures, the best situation is when family members serve as non-executive directors, and a hired manager serves as the CEO. This is followed by the situation where a family member acts as the CEO. If family members are divided into founders and descendants, it is best when the founder serves as the non-executive director, and a hired manager serves as the CEO. The least desirable situation is where descendants serve as the non-executive directors, and a hired manager serves as the CEO. Villalonga and Amit (2006, 414) confirm that only when the founder is the CEO or when the founder is the chairman but a hired manager is the CEO could family ownership create value for the firm. If a descendant takes up the position of CEO, the firm value would drop.

The above studies in developed countries suggest that only when the founder acts as the CEO could the firm exhibit better performances. When a descendant takes up the position of CEO, the firm performance may deteriorate, and the firm value may also decline. If a hired manager is appointed to the position of CEO, the performances are usually between the aforementioned two extremes. This paper hence proposes a second hypothesis:

H-2: When the founder acts as the CEO, it is the most beneficial situation for firm performances in Taiwan.

In Chinese culture, the tradition is to pass down businesses to descendants instead of to capable outsiders. The positions of chairman and CEO are usually taken by family members. Only when none of the family members is willing to take a vacant position would the firm appoint an outsider to the position of CEO. Therefore, this paper uses 9 combinations of chairman and CEO positions to analyze the influence that family involvement in management has on firm performances in Taiwan, the combinations

ISSN: 1796-9360

being founder, descendant, or a hired manager serving as chairman and CEO, as Table 1 illustrates.

Table 1. The combinations of chairman and CEO positions from founder, descendent, and hired managers

	Founder CEO	Descendant CEO	Hired CEO
Founder Chairman	A	B	C
Descendant Chairman	D	E	F
Hired Chairman	G	H	I

After comparing these 9 combinations, it is expected that Combination A—where the founder acts as both the chairman and the CEO—will have yielded the best performances. This expectation rests on the assumption that the founder is usually diligent, with entrepreneurial spirit, and keen about the needs of the firm, thus, being most capable of taking the firm value to a higher level. Villalonga and Amit (2006, 414) draw the same conclusion for U.S. family firms. The second-best situation is expected to be Combination B, where the founder acts as the chairman but a descendant serves as the CEO. This is because the founder is more inclined and willing to guide his or her descendant, especially in the Chinese society. The third most desirable situation is expected to be Combination C, where the founder acts as the chairman but a hired manager is appointed as the CEO.

This expectation rests on the assumption that a professional manager could avoid the drawbacks of cronyism leading to a loss of non-family talent. However, Villalonga and Amit (2006, 414) have suggested that, in Western countries, if a descendant became the CEO, the firm performance would be worse than if a hired manager served as the CEO. Combinations E and F should yield, according to expectations, worse performances than Combinations B and C owing to a lack of supervision and assistance from the founder. In relative terms, the combination having few family attributes may fail to shoulder responsibilities adequately and may, therefore, worsen firm performance, in the context of Taiwanese business firms. Therefore, this study suggests that Combination E is better than Combination F, and that Combination H is better than Combination I. Hence, the third hypothesis is proposed as follows:

H-3: The positive influence of different combinations of family members or non-family members serving as chairman or CEO on firm performance, from the strongest to the weakest, is ranked as A>C>B>E>F>H>I.[4]

METHODOLOGY

Sample selection and data sources

This study samples the panel data attributable to listed companies on the Taiwan Stock Exchange from 2002 through 2006. Because financial institutions and insurance companies have unique financial structures, and are subject to the control and supervision of government authorities, this study excluded these two industries from the sample pool. The companies with missing data during the sample period were also eliminated. A total of 465 listed companies are sampled, including 2,325 firm-year observations. The sources of data come from the following sources: (1) the database of *the Taiwan Economic Journal*, which provides information pertaining to financial issues, board-members' background, and family-member relationships; (2) annual reports and prospectuses of listed companies that present information pertaining to direct or indirect family holdings and founders' background; and (3) company websites and telephone inquiries with company spokesman when the companies meet the definition of 'family firm', and information about founders and about founders' relationships with the chairman and the CEO in cases where the founder occupies neither positions.

Table 2 summarizes the number of family firms and non-family firms, as well as the percentage of family firms in different industries. It is worth noting that in the electric-machinery industry, the electrical-and-cable industry, the chemical industry, and the other industries, the percentages of family firms all exceed 50%. There are a total of 465 companies sampled, and 193 are family firms. In other words, over 40% of the sampled companies are family firms. This shows that family firms are rather common in Taiwan.

Table 2. Number and percent of family and non-family firms by industry (N=465firms)

Industry	**Non-family firms**	**Family firms**	**% of family firms**
Cement	5	3	37.5%
Food	10	9	47.4%
Plastics	11	9	45.0%
Textiles	28	19	40.4%
Electric Machinery	12	14	53.8%
Electrical and Cable	5	8	61.5%
Chemical	14	14	50.0%
Glass, Ceramics	3	2	40.0%
Paper, Pulp	5	2	28.6%
Iron and Steel	13	11	45.8%
Rubber	5	4	44.4%
Automobile	4	0	0.0%
Electronic	99	63	38.9%
Building Material and Construction	21	10	32.3%
Shipping and Transportation	11	4	26.7%
Tourism	4	2	33.3%
Trading and Consumers' Goods Industry	6	4	40.0%
Oil, Gas and Electricity	4	2	33.3%
Other	12	13	52.0%
Total	272	193	41.5%

Definitions and measurements of variables

This study applies both accounting and market-value indicators as the measure of performances to investigate whether family firms perform better than non-family firms in Taiwan. ROA is the accounting indicator used in this study, and is calculated in two ways: one is to divide net income (NI) by the book value of total assets, and is denoted as ROA (NI); the other method is to divide EBITDA by the book value of total assets, and is denoted as ROA (EBITDA). Although EBITDA is more capable of reflecting the actual profitability of a firm, both ROA (NI) and ROA (EBITDA) may be distorted by accounting treatments. For the above reasons, this study has also used a market indicator, Tobin's Q (firm market value divided by asset replacement value), to evaluate firm performance. Tobin's Q addresses the future growth opportunity of the firm, and avoids the problems associated with accounting treatments. Thus, companies often use Tobin's Q to assess whether their strategies would create long-term value for shareholders[5].

The family firm, in this study, is defined as a dummy variable. Any firm that meets a criterion of family firm is defined as "1" and others are defined as "0"; the founder is defined as an individual or a few individuals who established the firm and supervised the firm's operations and developments in its early days; a descendant is a descendant of the founder; a hired manager is a non-family-member manager.

In our regression model, we employ the following control variables: the management ownership (%) is the percentage of management holdings relative to the total number of outstanding shares, excluding holdings attributable to family-member managers. If the percentage of management ownership increases, management control right would increase, and thus, the agency cost possibly would increase and would be expected to negatively affect performance (Demsetz, 1983; Demsetz and Lehn, 1985). But Chen, Gou, and Mande (2003, 280) show that managerial ownership positively affects firm valuation, indicating an interest-alignment effect; the unaffiliated blockholdings (%), defined as the total holdings of the individuals or institutional investors who own at least 5%, excluding both the holdings by family members and company holdings controlled by family members. Because unaffiliated blockholders are the biggest monitors, we expect that they will have a positive relationship with performance (Smith, 1976; Shleifer and Vishny, 1986). However, some studies propose that possessors of unaffiliated blockholdings may tend to seek personal benefits by exploiting the interest of minority shareholders, negatively affecting firm performance (La Porta, et al., 1999; Selarkas, 2005); the outside directors (%), defined as the percentage of outside directors among the total number of board seats, are expected to have a positive relationship with performance (Wagner III, Stimpert, and Fubara, 1998).

R&D/sales (%) is the research and development costs divided by company sales, and it represents the importance of sales-related intangible assets; it also serves to control for asset specificity. R&D/sales (%) may positively influence performance, as one would expect intangible assets to enhance performance (Morck et al., 1988; McConnell and Servaes, 1990). However, firms with high research expenditures (asset specificity) will also be more costly for external investors to monitor; this may deteriorate firm performance (Chen and Steiner, 1999); the long-term debt ratio is long-term debt divided by total assets, and is expected to have a negative correlation with firm per-

ISSN: 1796-9360

formance (Chen, Gou, and Mande, 2003, 274; Singh and Davidson, 2003; Demsetz and Villalonga, 2001), since leverage would increase a firm's floating costs and bankruptcy costs. On the other hand, Morck et al. (1988) argue that financial leverage could capture the value of corporate tax shields, thereby increasing the value of Tobin's Q.

The return volatility represents firm operational risk, which is measured by the standard deviations of the historical daily stock returns in each year. We suspect that high firm-specific risk will strengthen managers' conservatism, so that the return volatility will exhibit a negative relationship with performance (Anderson and Reeb, 2003, 1317); the firm size is measured by Ln (total assets), and we expect large firms to exhibit a positive relationship with performance (Singh and Davidson, 2003; Andres, 2008, 439), since larger firms are more efficient in their asset utilization. On the other hand, some studies have discovered that firm size can decrease performance as the given firm becomes larger and more diversified (Lang and Stulz, 1994; Demsetz and Villalonga, 2001); the firm age is calculated by Ln (the number of years since inception), and as expected, older firms are likely prone to inertia and less flexibility in their ability to adapt to competitive pressures. But older firms are also more experienced, receive the benefits of learning, and are associated with first-mover advantages. Therefore, the influence of firm age on firm performance merits further investigation (Douma, George, and Kabir, 2002).

DESCRIPTIVE STATISTICS

Table 3 lists the descriptive statistics of the key variables of the sampled companies. As for the indicators of market-value performance, the maximum value of Tobin's Q is 6.57, the minimum value is 0.28, and the mean (median) is 1.20 (1.04). As far as the accounting-performance indicators are concerned, the maximum value of ROA (EBITDA) is 42.84%, the minimum value is -238.16%, and the mean (median) is 7.14% (7.31%). The maximum value of ROA (NI) is 40.05%, the minimum value is -165.54%, and the mean (median) is 3.07% (3.08%). These numbers indicate that there are significant variations among the performance indicators of the sampled companies. The mean value of management ownership is as low as 0.99%, the average ownership of outside directors is 4.24%, and the mean value of unaffiliated blockholdings is 9.5%. The average of Taiwanese firm age is 29.95 years, younger than the average of 50 years in the United States (Anderson and Reeb, 2003). Other control variables, namely R&D/sales, long-term debt ratio, return volatility, and firm size, are 1.73%, 8.59%, 0.0258, and NT $ 2,281,433,000 on average, respectively.

Table 3. Descriptive Statistics of Variables

	Mean	Median	Std_Dev	Max	Min
Tobin's Q	1.1993	1.0423	0.5504	6.5670	0.2796
ROA (EBITDA) (%)	7.14	7.31	10.59	42.84	-238.16
ROA (NI) (%)	3.07	3.08	8.53	40.05	-165.54
Management ownership (%)	0.99	0.11	2.06	26.68	0.00
Unaffiliated blockholdings (%)	9.50	6.88	10.61	81.24	0.00
Outside directors (%)	4.24	0.00	10.15	60.00	0.00
R&D/sales (%)	1.73	0.51	4.26	157.22	0.00
Long term debt ratio (%)	8.59	5.35	9.63	55.41	0.00
Return volatility	0.0258	0.0255	0.0082	0.0521	0.0024
Firm size (Unit: NT$1,000)	22.81433	22.6039	1.338504	27.93585	19.56356
Firm age(years)	29.95	29.65	11.68	61.05	5.08

Table 4 indicates the differences in major variables for family and non-family firms. We conduct T-tests to observe whether the differences are statistically significant. For management ownership, there is no significant difference between family and non-family firms. In terms of unaffiliated blockholdings, non-family firms had more unaffiliated blockholdings than family firms. For outside directors, although non-family firms have more outside directors than family firms, the difference is not significant. The return volatility of family firms is significantly lower than non-family firms, and the total assets of family firms are smaller than for non-family firms. With regard to R&D/Sales, long-term debt ratio, and firm age, there is no significant difference between family and non-family firms. Family firms are significantly superior to non-family firms in all three performance indicators, and the differences all reach the significance level of 1%.

Table 4. Difference of mean tests between family firms and non-family firms

	Family firms	Non-family firms	t-statistic
Number of firms	193	272	
Tobin's Q	1.239	1.175	2.76***
ROA (EBITDA) (%)	8.36	6.40	4.97***
ROA (NI) (%)	4.14	2.43	5.20***
Management ownership (%)	0.99	0.92	0.02
Unaffiliated blockholdings (%)	8.11	10.33	-5.38***
Outside directors (%)	24.03	25	1.25
R&D/sales (%)	1.87	1.65	1.43
Long term debt ratio (%)	8.27	8.78	-1.3
Return Volatility	0.0249	0.0263	-4.37***
Firm size (Unit: NT$1,000)	14,635	37,497	-7.10***
Firm age(years)	29.69	30.11	-0.89

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Table 5 presents, in percentage form, the combinations that arise when the CEO or the chairman is the founder, the descendant, or a hired manager. For example, the combination of Founder Chairman and Descendant CEO, i.e., Combination B, accounts for 5.88% of the family business. Among the business firms in the sample, 40.98% of the firms have Founder Chairman and Founder CEO, comprising the largest group. The second-largest category is the combination of Founder Chairman and Hired CEO, accounting for 21.67%. The third is the combination of Descendant Chairman and Descendant CEO, accounting for 20.29% of the total.

Table 5. The 9 combinations of family members and non-family members acting as CEO or Chairman

	Founder CEO	Descendant CEO	Hired CEO	Total
Founder chairman	40.98%(A)	5.88%(B)	21.67%(C)	68.53%
Descendant chairman	0.49%(D)	20.29%(E)	7.55%(F)	28.33%
Hired chairman	0.39%(G)	1.57%(H)	1.18%(I)	3.14%
Total	41.86%	27.75%	30.39%	100%

EMPIRICAL RESULTS

Family firm performance versus non-family firm performance

This study examines whether family firms perform better than non-family firms[6] and also examines the influences that types of chairman and CEO have on firm performance in Taiwan. Founder CEO, Descendant CEO, and Hired CEO are the dummy variables: if the founder serves as the CEO, Founder CEO is defined as 1; if not, it is defined as 0. The same definition applies to the other scenarios. The intercept of regression represents the average performances of non-family firms.

According to columns 1, 3, and 5 in Table 6, the coefficients of family firm are all significantly positive, reaching the 1% significance level when ROA (EBITDA) and ROA (NI) are the measurement of performance. The coefficient of family firm is 0.0676, reaching the 5% significance level when Tobin's Q is the measurement of performance. As we have seen, both accounting indicators and market-value indicators demonstrate the better performance of family firms.

Columns 2, 4, and 6 of Table 6 allow for comparisons involving scenarios where the position of CEO is held by a family member or a non-family member. In the calculations involving ROA (EBITDA) and ROA (NI), regardless of whether the position of CEO is held by the founder, a descendant, or a hired manager, the coefficients are all significant and positive. Both of the calculations indicate that the best scenario is when the founder serves as the CEO, followed by when a hired manager serves as the CEO, and when a descendant serves as the CEO. When Tobin's Q as the indicator, the results show that the best scenario is when the founder acts as the CEO, followed by when a descendant serves as the CEO, and when a hired manager serves as the CEO. As can be seen, family members' active involvement in management could enhance both accounting value and market-value performance. In addition, although management ownership is quite small, it still has a positive effect on firm performance.

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In terms of unaffiliated blockholdings and outside directors, all three performance indicators are significant and positive. These findings show that stronger external supervision is more helpful to firm performance in Taiwan. Since outside directors (independent) may not feel compelled to contradict the other executives or the CEO, outside directors are in a better position to monitor managerial activities and performance. As the unaffiliated blockholder are the biggest outside monitors, when the blockholders' rights are more centralized, their supervisory power may promote managers' decisions that maximize shareholder wealth. The above finding is not consistent with the study by Thomsen, Pedersen, and Kvist (2006), which showed that blockholder ownership negatively affects firm performance for continental Europe.

R&D/sales have a significant and negative correlation with ROA (NI), which is consistent with the study by Chen, Guo, and Mande (2003, 276), who argued that the findings perhaps stem from one of two factors: (1) a short timeframe makes it impossible for the R&D results to be reflected in net incomes, and thus, the recognition of R&D costs as expenses would lower net income; (2) the marginal productivity of R&D costs would be highly susceptive to the effects of macro economies; when an economy is sluggish, the marginal productivity of R&D costs may be negative.[7] The influence of return volatility on ROA (EBITDA) and ROA (NI) is significantly negative, but the influence on Tobin's Q is significantly positive. This two-fold finding perhaps reflects the changes that market-value indicators undergo in response to stock-price fluctuations; hence, the calculation of market-based indicators contributes to the positive influence of return volatility. The influence of a long-term debt ratio on the three performance indicators is also significantly negative. This shows that leverage risk negatively affects firm performance. The influence of firm size is significantly positive on the three performance indicators, suggesting that larger firms do have their own advantages. Firm age is negatively correlated with ROA (EBITDA), indicating that a firm's profitability declines with the passage of time.

Table 6. Family firm performance versus non-family firm performance:

$$Performance_{it} = \beta_{1i}+\beta_2 Family\ firm_{it}+\beta_3 Management\ ownership_{it}+\beta_4 Unaffiliated\ blockholdings_{it}+\beta_5 Outside\ directors_{it}+\beta_6 R\&D/sales_{it}+\beta_7 Long\text{-}term\ debt\ ratio_{it}+\beta_8 Return\ volatility_{it}+\beta_9 Ln\ (total\ assets)_{it}+\beta_{10} Ln(firm\ age)_{it}+e_{it}$$

The influence of CEO position on firm performance:

$$Performance_{it} = \beta_{1i}+\beta_2 Founder\ CEO_{it}+\beta_3 Descendant\ CEO_{it}+\beta_4 Hired\ CEO_{it}+\beta_5 Management\ ownership_{it}+\beta_6 Unaffiliated\ blockholdings_{it}+\beta_7 Outside\ directors_{it}+\beta_8 R\&D/sales_{it}+\beta_9 Long\text{-}term\ debt\ ratio_{it}+\beta_{10} Return\ volatility_{it}+\beta_{11} Ln\ (total\ assets)_{it}+\beta_{12}\ Ln(firm\ age)_{it}+e_{it}$$

	ROA(EBITDA)		ROA(NI)		Tobin's Q	
	1	2	3	4	5	6
Intercept	0.2446	0.2519	0.1866	0.1962	1.5325	1.7442
	(3.91)***	(3.98)***	(3.71)***	(3.86)***	(4.12)***	(4.62)***
Family firm	0.0247		0.0187		0.0676	
	(4.32)***		(4.15)***		(2.45)**	
Founder CEO		0.0296		0.0257		0.2043
		(3.49)***		(3.78)***		(4.00)***
Descendant CEO		0.0194		0.0163		0.1132
		(2.69)***		(2.10)**		(2.00)**
Hired CEO		0.0259		0.0214		0.0898
		(2.83)***		(2.91)***		(1.67)*
Management ownership	0.1091	0.0949	0.2346	0.2176	1.7767	1.7298
	(0.87)	(0.75)	(2.37)**	(2.19)**	(3.08)***	(3.00)***
Unaffiliated blockholdings	0.0514	0.0499	0.0245	0.0229	0.539	0.5387
	(2.28)**	(2.21)**	(2.02)**	(1.91)*	(5.57)***	(5.58)***
Outside directors	0.035	0.0326	0.0349	0.0324	0.2054	0.1976
	(1.79)*	(1.67)*	(1.88)*	(1.74)*	(2.01)**	(1.93)*
R&D/sales	-0.0301	-0.0299	-0.1052	-0.1057	0.233	0.2267
	(-0.64)	(-0.54)	(-2.87)***	(-2.88)***	(1.26)	(1.23)
Long-term debt ratio	-0.1481	-0.15	-0.1374	-0.1384	-0.4683	-0.4653
	(-5.80)**	(-5.86)***	(-6.86)***	(-6.91)***	(-4.22)***	(-4.19)***
Return volatility	-1.3366	-1.2999	-1.5048	-1.475	3.1324	3.3642
	(-5.00)**	(-4.85)***	(-7.25)***	(-7.09)***	(2.88)***	(3.09)***
Ln(total asset)	0.0173	0.0173	0.0126	0.0127	0.1086	0.1141
	(7.16)***	(7.16)***	(6.47)***	(6.51)***	(7.42)***	(7.75)***
Ln(firm age)	-0.0142	-0.0134	-0.0091	-0.0077	0.0328	0.0463
	(-2.00)**	(-1.86)*	(-1.59)	(-1.32)	(0.75)	(1.05)
Adj R square	0.1622	0.1732	0.1544	0.2002	0.1313	0.1297

Note: ***, **, and * denote values under the significance levels 1%, 5%, and 10%.

FAMILY MANAGEMENT AND FIRM PERFORMANCE

This study designed 9 combinations with 9 dummy variables, from A to I, to identify the combination (wherein the chairman and the CEO would be the founder, a descendant, or a hired manager) that would be optimal for firm performance. According to Table 7, if ROA (EBITDA) is used to measure performances, the best combination can be found when the founder serves as both the chairman and the CEO, followed by the founder serving as the chairman but a hired manager acting as the CEO; the third-best combination is the one where the founder serves as the chairman and a descendant serves as the CEO. However, if Tobin's Q is used as the measurement of performances, the best combination is when the founder acts as both the chairman and the CEO, followed by when the founder serves as the chairman and a descendant serves as the CEO, and when the founder serves as the chairman and a hired manger serves as the CEO. The influence of the other combinations (D, F, G, H, and I) is not statistically significant. From the above findings, one can conclude that family management indeed has played a positive role in determining firm performance in Taiwan.

Table 7. Performance comparison of family members
and non-family members that serving as Chairman and CEO:

$$Performance_{it}=\beta_{1i}+\beta_2 A_{it}+\beta_3 B_{it}+\beta_4 C_{it}+\beta_5 D_{it}+\beta_6 E_{it}+\beta_7 F_{it}+\beta_8 G_{it}+\beta_9 H_{it}+\beta_{10} I_{it}+\beta_{11} Management\ ownership_{it}+\beta_{12} Unaffiliated\ blockholdings_{it}+\beta_{13} Outside\ directors_{it}+\beta_{14} R\&D/sales_{it}+\beta_{15} Long\text{-}term\ debt\ ratio_{it}+\beta_{16} Return\ volatility_{it}+\beta_{17}\ Ln\ (total\ assets)_{it}+\beta_{18}\ Ln(firm\ age)_{it}+e_{it}$$

	ROA(EBITDA)	ROA(NI)	Tobin's Q
Intercept	0.2591	0.2018	1.7778
	(4.07)***	(3.95)***	(4.70)***
A	0.0318	0.0272	0.2274
	(3.07)***	(3.30)***	(4.38)***
B	0.028	0.018	0.177
	(1.78)*	(1.45)	(2.34)**
C	0.0298	0.0262	0.1231
	(3.47)***	(3.81)***	(2.09)**
D	0.0895	0.0645	0.4432
	(1.27)	(1.13)	(0.95)
E	0.0262	0.0163	0.0811
	(2.43)**	(1.89)*	(1.32)
F	0.0132	0.007	-0.0314
	(0.83)	(0.56)	(-0.38)
G	0.0283	0.0216	-0.3722

	(0.45)	(0.43)	(-1.26)
H	0.0024	-0.0061	-0.0363
	(0.08)	(-0.25)	(-0.25)
I	0.0003	0.0023	0.0078
	(0.01)	(0.10)	(0.06)
Management ownership	0.0973	0.219	1.7295
	(0.77)	(2.20)**	(3.00)***
Unaffiliated blockholdings	0.0487	0.0217	0.5374
	(2.15)**	(1.82)*	(5.56)***
Outside directors	0.0311	0.0307	0.1921
	(1.30)	(1.64)	(1.88)*
R&D/sales	-0.0312	-0.1068	0.2187
	(-0.66)	(-2.91)***	(1.18)
Long-term debt ratio	-0.1506	-0.1384	-0.4624
	(-5.87)***	(-6.89)***	(-4.17)***
Return volatility	-1.2925	-1.4733	3.2535
	(-4.81)***	(-7.07)***	(2.99)***
Ln(total assets)	0.0175	0.0128	0.1142
	(7.19)***	(6.53)***	(7.74)***
Ln(firm age)	-0.0124	-0.0067	0.0565
	(1.70)*	(-1.15)	(1.27)
R square	0.1793	0.2092	0.1449

Note: ***, **, and * denote values under the significance levels 1%, 5%, and 10%.

CONCLUSIONS

Whether using an accounting performance indicator (ROA) or a market-value performance indicator (Tobin's Q), this study find that the performances of family firms are better than the performances of non-family firms. Family firms in Taiwan usually hold ownership and management rights, a situation that helps negate the agency problem between shareholders and managers. More important, this study interest in the issue of what role the family should play in firm management to enhance firm performance. Should the position of the CEO be assigned to the founder, a descendant, or a hired manager? How does a descendant acting as CEO or chairman affect firm performance? In this study, both accounting and market-value indicators show that situations where the founder serves as the CEO are the most beneficial to firm performance. When a descendant serves as CEO, firm performance benefits, as well. This finding is not consistent with Villalonga and Amit (2006, 414), who suggest that U.S. firm performance declines when a descendant serves as the CEO.

This study also find weak evidence that outside directors are in a better position to monitor managerial activities and enhance firm performance. As the unaffiliated blockholder are the biggest monitors, they can effectively solve information-asymmetry problems, and therefore, unaffiliated blockholders can help promote firm performance (Shleifer and Vishny, 1986).

When ROA is used as the performance measure, this study finds that the best combination for firm performance involved the founder acting as both the chairman and the CEO. Because the founders usually are hardworking people, are great visionaries, or are exceptionally talented, and most important, they are fully aware of the needs of the firm. The founders' service to the firm can best contribute to firm growth and profitability. In Taiwan, the founder usually passes the position of CEO to a descendant or a hired manager after the firm has matured. At this point, the founder usually plays a role of decision maker and supervisor. The second-best combination is when the founder acts as the chairman, and a hired manager acts as the CEO. This combination could enhance the firm's competitiveness because it avoids the loophole where the firm, by hiring from a within-family pool of candidates, runs the high risk of neglecting the firm's need for professionalism. However, ROA is a short-term indicator of profits. Hired managers generally tend to emphasize short-term profit-seeking opportunities to enhance ROA. With Tobin's Q as the performance indicator, the results show that the best combination is when the founder acts as both the chairman and the CEO. The second-best combination is when the founder serves as the chairman and a descendant serves as the CEO, followed by the combination where a hired manager serves as the CEO. This best-combination sequence may reflect the role of Tobin's Q as a market-value indicator emphasizing long-term performance. When the core decision-maker positions are held by one or several members of the same family, the management places considerable attention on the strategies beneficial to the enhancement of long-term value, partly in the hope that the business could be passed down to future generations over the long term. This scenario may explain why previous studies find the long-term performances of family firms to be better than those of non-family firms.

Notes

1. *Up to now, the studies addressing this issue in Taiwan include Tsai, Hung, Kuo, and Kuo, (2006) and Yeh, Lee, & Woidtke (2001).*
2. *According to statistics by China Credit Information Service in 2003, the top 20 conglomerates accounted for 59.78% of GNP in Taiwan.*
3. *Dyer (2006) indicates that as far as human capital is concerned, families boast unique training, capabilities, adaptation, and aggression. As far as social capital is concerned, families have good relationships with employees, customers, suppliers, and other shareholders.*
4. *The combinations of D and G demonstrated uncommon situations in Taiwan's business firm; therefore, this paper excludes them from the discussion.*
5. *Tobin's Q= (book value of total liabilities + market value of the outstanding ordinary shares + book value of preference shares)/(book value of total assets).*
6. *The panel data used in this paper have both fixed and random effects. The results of the Hausman test show that the P-value is close to 0. Therefore, the fixed effect is applied as the empirical method.*
7. *During the sampling period of 2002-2006, the economic indicators released by the Council for Economic Planning and Development showed that from January to June 2003, from March to July 2005, and from June to December 2006, the economy of Taiwan was in a slowdown.*

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FAMILY VERSUS NON FAMILY FIRMS IN THE LUXURY YACHTS SECTOR: STRATEGY – STRUCTURE COMBINATION TO MANAGE THE PERFORMANCE

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Abstract

The *main goal* of this study is to analyze the *impact of strategy-structure combination on performance, adding a new variable: the family.* The research considers the well-known strong link between strategy and structure to demonstrate that a correct combination of these two variables has a positive impact on performance. In addition to the strategy and structure variables there is another variable which has a relevant impact on performance, the family, and this study is conducted both in family and non family firms to understand where the most value is created. Consequently this research focuses its attention on *two variables* that influence the performance: *the strategy-structure combination and the family*. This research wants to study the strategy-structure combination and the relationship with the performance adding the family like a new variable, because this topic is less treaty in the literature. Dyer (2003, p. 401) confirms this assertion, in fact he refers to the family as "the missing variable in organizational research" and he warns that "failing to use the family as a variable in organizational research can lead to incomplete or misleading findings" (Speckbaker G., Wentges P. 2007). Based on this statement, I conduct this study comparing family and non family firms in the relationships strategy – structure and the impact on performance, because in the organizational and strategic management researches the family is a relevant variable, sometimes forgotten. Although the number of papers on family firms has recently increased, it is unaware of any published research on the influence of family or non family ownership on strategy – structure combination and the impact on performance.

Key words: family firms, non family firms, strategy, structure, performance.

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INTRODUCTION

During the crisis period the mangers formulate again some questions as: How the company can be more efficient, but at the same time it can remain effective? Our strategy is aligned with the market? The structure is adequate to the strategy to implement?

In particular, in this study it is underlined an aspect of the strategic management, the well-known strong link between strategy and structure and its impact on performance, considering also the family, an important variable in the organizational research.

The research idea is born from the issues generated by this crisis period, but also by the study of the strategy and structure literature and their appropriateness. The strategy and structure alignment becomes essential in the crisis period and really in this period the managers discover again some fundamental tenets of the firm theory and how the firms should be organized and managed.

The *main goal* of this study is to analyze the *impact of strategy-structure combination on performance, adding a new variable: the family.* This research focuses its attention on *two variables* that influence the performance: *the strategy-structure combination and the family*. This research wants to add a new variable, the family, because this topic is less treaty in the literature. Dyer (2003, p. 401) confirms this assertion, in fact he refers to the family as "the missing variable in organizational research" and he warns that "failing to use the family as a variable in organizational research can lead to incomplete or misleading findings" (Speckbaker G., Wentges P. 2007). Based on this statement I conduct this study comparing family and non family firms in the relationships strategy – structure and the impact on performance, because in the organizational and strategic management researches the family is a relevant variable, sometimes forgotten.

This study compares family and non family firms in the relationships strategy – structure and the impact on performance because it wants to better understand where the most value is created: in family or in non family firms.

This paper is organized as follows. Firstly, it analyses the theoretical background about the family and not family firms and the paradigm strategy - structure - performance. Secondly, the research method is outlined, as well as a brief presentation of the analyzed sample. Finally, some managerial implications are drawn as conclusions.

THEORETICAL BACKGROUND

This paragraph analyses the literature related to the *Family firms* and the *Strategy – Structure – Performance*, underlining that the family is "the missing variable in organizational research" (Dyer, 2003) and "failing to use the family as a variable in organizational research can lead to incomplete or misleading findings" (Speckbaker G., Wentges P. 2007).

Consequently in this research it is considered also the family as a variable which influences the performance with the strategy – structure combination. Although the number of papers on family firms has recently increased, we are unaware of any published research on the impact of family ownership and strategy – structure combination on performance. Family business research has concentrated mainly on topics like the economic performance of family firms, succession or the family aspects of such businesses (Speckbaker G., Wentges P. 2007). *This study tries to contribute to fill this gap.*

Through this study I would also demonstrate my supposition, confirmed by Dyer. Studying organizational and strategic management issues *not considering the variable "family" it is a mistake,* because the presence or the absence of the family changes the business performances, how widely demonstrated in the literature.

Family versus non family firms

In the last years *family firms have received increasing attention* and several recent studies have reported and underlined that in continental Europe, Asia, and Latin America, the vast majority of publicly traded firms are family controlled (La Porta et al., 1999; Claessens et al., 2000; European Corporate Governance Network, 2001; Faccio and Lang, 2002). These researches, also, suggest that family firms play an important role in economic activity worldwide. In fact two-thirds of private businesses in many countries are considered to be family firms (Neubauer and Lank 1998, IFERA 2003), and they contribute to wealth creation and job generation with reference to narrow and broad family firm definitions (Astrachan and Shanker 2003).

The attention on family firms increases, but *it's not so easy to give a definition of family firm* and in the literature ambiguities persist. In fact in the first issue of Family Business Review in their editorial note, Lansberg, Perrow, and Rogolsky (1988) asked: "What is a family business?". People seem to understand what is meant by the term family business, yet when they try to articulate a precise definition they quickly discover that it is a very complicated phenomenon (Hoy - Verser, 1994). The question continues to be asked because definitions of family business abound in the literature (Desman & Brush, 1991).

It follows the most significant family firm definitions:

- Chua, Sharma, and Chrisman (1996) define family business as a business governed and/or managed on a sustainable, potentially cross-generational, basis to shape and perhaps pursue the formal or implicit vision of the business held by members of the same family or a small number of families;

- La Porta (1999) defines family business like a firm that is partly owned by one or more family members who control together at least 20% of the total votes outstanding;

- Astrachan and Kolenko (1994) suggest that a family had to own over 50 percent of the business in a private company or more than 10 percent of a public company in order to qualify as a family business;

- Le Breton-Miller, Miller, and Steier (2004) do not explicitly define a family firm but they assume that management succession means firm leadership will pass from one family member to another or, in the absence of a competent family contender in the short-term, a bridge manager between family tenures;

- Zahra, Hayton, and Salvato (2004) define family firms according to the presence of both a family member with some identifiable share of the ownership of the firm and multiple generations of family members in leadership positions within that firm;

- Morck and Yeung (2004) use the following criteria of family control to distinguish family firms: (1) the largest group of shareholders in a firm is a specific family, and (2) the stake of that family is greater than either a 10% or 20% control of the voting shares.

This research is based on the common selected criteria of ownership and management control (Chua et al., 1999), to identify family businesses. In this study a firm is classified as a family firm, if:

(1) at least 50 per cent of the shares are owned by the family, and the family is responsible for the management of the company;

or (2) at least 50 per cent of the shares are owned by the family, the company is not family-managed, but the CEO perceives the firm as family firm;

or (3) family ownership is less than 50 per cent, the company is family managed, the CEO perceives the firm as a family firm and a venture capital or investment company owns at least 50 per cent of the shares.

After defining family firm it is important to examine *the "family effect" on firm performance*.

Several studies have found that publicly traded firms that are family owned/controlled perform better than non-family firms (Anderson and Reeb 2003, Lee 2004, McConaughy 1998; Lee 2006, Villalonga and Amit 2006). Anderson and Reeb, in a research conducts in 2003, found that family firms outperformed non-family firms in the S&P 500, noting that "family firms are significantly better performers than non-family firms".

But there are other studies that underline the opposite. These researches were mainly conducted in Europe and Asia (Maury 2006 and Claessens, Djankov et al. 2002).

For example:

- Daily and Dollinger (1992) write that family-run firms do appear to achieve performance advantages whether performance is measured in terms of financially oriented growth rates or perceived measures of performance.

- Faccio, Lang, and Young (2001) have also noted that family firms are relatively poor performers due to conflicts that arise as a family attempts to manage an enterprise.

These mixed results have lead to additional research to understand the issues. Research by Miller, Le Breton-Miller et al. 2007 found that variation in the definition of 'family firm' impacted the research findings. They concluded that superior performance was found in the 'lone-founder' firms but not in ownership/management of later generations. In addition, Westhead and Cowling also found that various definitions of 'family firm' lead to different results of whether family firms perform better than non-family firms (Westhead and Cowling 1998).

In the literature it emerges another aspect, less treaty, but notable, strictly tied to performance. In fact there are *various facets of family firm performance* (Sharma 2004) to clarify. The motivation of private family firms is likely not limited to 'profit maximization'. Other considerations may also enter into decision processes, such as tax considerations or a preference for private benefits of ownership as an alternative or in addition to the 'bottom line' profit. Consequently the strategy and the decisional processes are different in family and in non family firms.

Despite the different positions in the literature in terms of best performance in family or in non family firms, this study would to understand if the most value is created in family or in not family firms, trying to confirm a part of literature.

STRATEGY – STRUCTURE AND PERFORMANCE

The strategy concept and corporate structure

It is appropriate to clarify what is the meaning of the strategy and the structure in this study, before to get into the discussion.

In the literature there is an abundance of *strategy definitions*, but Mintzberg tried to organize the different conceptions of strategy and he defines the strategy through 5 symbol words: Plan, Ploy, Pattern, Position and Perspective:

- the *plan* identifies the guidelines to follow in a determined situation, thought ahead than the action, and intentionally developed;

- the strategy is a *ploy* intended and designed to contrast a competitor;

- the strategy as the *pattern* is the result of the actions and behaviors of men, deliberate or not, but not of their designs;

- the strategy *places* specific products in specific markets. It's a mediating force between the organization and the environment;

- the strategy is the *perspective* for the future, the vision of the managers or of the owner.

To formulate a correct concept of strategy, the five definitions listed above should be considered jointly and not separately.

Another way to define the strategy is to say what it is not, as Porter (1997): quality, time-to-market, customer satisfaction are not strategies, but these are tools that a company can adopt to achieve best results (G. Pellicelli, 2005).

Concluding, the elements that characterize the concept of strategy can be identified as follows:

- a set of complex decisions, relating to the who, the what and the how;

- medium - long term goals defined by the decisions;
- the resources to acquire and to allocate for the achievement of the strategy;
- the actions for the strategy implementation.

To draw a successful strategy, these elements must be verified in each firm and related with its external environment; otherwise the result is to design something unrealizable.

Grant (1999) emphasizes this link and he considers the strategy as a link between the company and its external environment and this concept is the basis of this study.

The firm must develop a strategy that is able to create added value for the stakeholders, using its core skills, but, at the same time, it must closely control the environment where it operates to snatch opportunities and monitor the possible threats that may arise. In fact in the systemic view, the environment is the set of factors that surround the actors (in this study the firms) and, in relation to the interests and goals, it determines the behavior. The environment influences the behavior of the firms; consequently in order to make effective decisions, the companies must compare with external partners and solutions, especially because different environmental conditions require different ways of operating (Costa, G. Gubitta P., 2004).

The Porter and the Miles and Snow strategy classifications are used in this study for the analysis conducted, because they consider the competitive advantage and the link with the environmental.

In this study the *corporate structure* is considered as a set where roles, activities and tasks are assigned to each element, in accordance with rules and constraints to make possible the achievement of a common goal (Golinelli, 2005). In particular the structural organization of each group is analyzed in accordance with the basis structures: elementary, functional, divisional and matrix. It is also important to underline that in each group of firms, also if classified following the basis structures, there are always some variation to the basis structures.

The organizational design

After defining the "dimension" strategy and the "dimension" structure it must face a more complex issue: the *organizational design*, or *how to put together the strategy and structure* and other variables, although more emphasis will be placed on the latter. In this phase it is considered the issue related to the study of the structure more adapt to the business goals.

The organizational design can be performed in a specific and formalized moments as for instance when the company was founded and it must embody the business idea or when the company enters into a restructuring phase.

It’s evident that there are many variables to consider for the effective organizational design, also if in this research is highlighted the link between strategy and structure.

In particular, in the following table are related:

- the strategy as outlined by Porter and by Miles and Snow

and

- some distinctive elements of organizational design that support at one's best the company's competitive approach.

Porter's competitive strategies	*Miles and Snow Strategic Typology*
1. Strategy: Differentiation ***Organizational design:*** ***Orientation to learning, acting flexibly and without many constraints, with a strong horizontal coordination*** ***Large spaces for research*** ***Enhance and build mechanisms for familiarity with customers*** ***Rewards the creativity of employees, risk-taking and innovation*** ***2. Strategy: Cost Leadership*** ***Organizational design:*** ***Guidance efficiency; strong central authority; tight control of costs with frequent and detailed reports SOPs*** ***Supply and distribution systems very efficient*** ***Careful supervision, routine tasks, limited empowerment of employees***	***1. Strategy: Exploring*** ***Organizational design:*** ***Orientation to learning, flexible structure, fluid, decentralized*** ***Large spaces for research*** ***2. Strategy: Defense*** ***Organizational design:*** ***Guidance efficiency; centralized authority and tight cost control*** ***Emphasis on productive efficiency, low overhead*** ***Careful supervision, limited empowerment of employees*** ***3. Strategy: Analysis*** ***Organizational design:*** ***Balance efficiency and learning; tight cost control, flexibility and adaptability*** ***Efficient production for established product lines; emphasis on creativity, research and risk taking, innovation*** ***4. Strategy: Reaction*** ***Organizational design:*** ***No clear organizational approach, the characteristics of the structure may change abruptly according to the needs of the moment***

Figure 1. Implications of organizational design of the strategy (Daft R.L., Organizzazione aziendale, Terza edizione, Apogeo, 2007, p. 61).

Analyzing the factors related to the organizational design, it emerges that depending on the strategy and the goals of the firm it should emphasize certain elements rather than others, thus implementing the strategy in the organizational structure most appropriate. If this occurs and some appropriate organizational elements are chosen to implement a particular strategy it is possible to affirm that the *correct alignment* between strategy and structure is reached.

The paradigm Strategy - Structure and Performance and how to measure

While in the literature many authors debate if it is the structure that follows the strategy or if it is the strategy that follows the structure, few authors study the issue of *performance related to strategy and structure combinations*.

One of the first authors which studied this issue was Rumelt. He showed a relationship between strategy - structure and performance. Rumelt in his study identifies the particular relationship between the strategies and the structures, in particular he de-

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fines nine forms of strategy - structure adopted by firms. He shows that certain combinations of strategy and structure are superior to others and he highlights that firms with a differentiation strategy which adopt the divisional form obtain better performance than the others.

Other researches conducted studies in terms of strategy - structure – performance; particularly Donaldson (1987) conducted a similar research in Australia, while Hamilton and Shergill have conducted a similar research in New Zealand. The results of these researches have shown that performance improved when strategy and structure are aligned.

Galbraith and Nathanson (1978) as well as emphasize the relationship between strategy and structure they argue that a proper alignment between strategy, structure and operational processes produces improvements in business performance.

Besides a research conducted by Harris C. and Ruefli TW (2000) noticed how the temporal order of changes in strategy or structure does not affect business performance. This study shows also that the firms which do not change the strategy, but they only modify the structure have worse performance of those that do not change either the strategy or structure; better performances are found in those firms which change the strategy leaving unchanged the structure.

Harris C. and Ruefli TW (2000), assessing the firms' performance, after the changes in strategy and structure, state that the measurement is problematic, because the implementation process, in terms of time, varies from company to company. To allow that the changes in strategy are implemented they choose to monitor the ROA (return on assets) for the five years following the change.

In the present study *the ROA and the ROE* are taken into consideration, also if they do not consider the time and risk variable (like for example the E.V.A.), but they are more objective. These indicators were also considered appropriate by the research conducted by Fryxell and Barton which studied the appropriateness of these indicators in the researches related to the strategy.

Some evidences from the literature

Analyzing the literature of family firms it emerges that the presence or not of the family influences the business performances, but it emerges another important aspect: also the choice of family firm definition can influence the results of the research. Consequently it was determinant the literature review in this topic for two reasons:

- to underline that the family is a variable that influences the performances, also for the different decisional processes;
- the choice of family firms definition can influence the results of the research in terms of performances, so it is relevant to specify the chosen definition.

While the literature review in strategy and structure combination underlines:

- the strategy and structure concept used in this study;

- the influence of the variable strategy-structure combination on performance;
- how to measure the business performances.

Consequently this study focuses its attention on *two variables* that influence the performance: *the strategy-structure combination and the family*, considering so, the family, the missing variable in organizational and strategic management research, how Dyer arguments.

RESEARCH QUESTION AND RESEARCH METHOD

The research question

The *main goal* of this study is to analyze the impact on performances of two variables:

1. the strategy-structure combination;
2. the family.

Based on the Dyer statement, where he affirms that failing to use the family as a variable in organizational research it can lead to incomplete or misleading findings, I conduct this study comparing family and non family firms in the relationships strategy – structure and the impact on performance, because in the organizational and strategic management researches the family is a relevant variable, sometimes forgotten.

The research considers the well-known strong link between strategy and structure (1) to demonstrate that a correct combination of these two variables has a positive impact on performance allowing a better management of the firms also in the crisis period. The strategy is one of the most significant factors that influence the structure (at the macro level) and the structure has a key role in the strategy process implementation. These two variables have not an indifferent impact on business performance, especially when these are aligned, the business results improve. In the crisis period it is necessary to rethink the strategy and to verify the strategy and structure balance to reach good performance. In addition to the strategy and structure variables there is another variable which has a relevant impact on performance, the family.

The other variable considered is the family (2) that has a relevant impact on performance, so the research is conducted both in family and non family firms to notice the analogies, the differences, and the impact on performance and to understand where the most value is created.

The main research question is:

- *How the business performances are influenced by the strategy-structure combination (1) and the family (2)?*

The method and the survey tool

The research has been conducted through the *method of "case studies"*, a *qualitative* research, where theory and empirical research are intertwined. Although this method is in part affected by subjectivity and it is often criticized for lack of statistical reliability and validity, it excels especially when it is necessary to understand a complex issue (Yin, 1984) and it can develop expertise and it strengthen what is already known through previous research. Case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships.

Researcher Robert K. Yin defines the case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used (Yin, 1984).

In this study it was appropriate to use a *qualitative method*, how Yin affirms, because it is complex to understand the strategy and structure combination, and it is not possible to recognize these firms internal dynamics with a quantitative method. Also Scapens reiterates the importance the use of case studies to understand the reality.

To understand the internal dynamics of a firm, it needs to use a qualitative research. Consequently it was also significant to choose an appropriate survey tool: it is not adequate to use a questionnaire, because it is not possible to verify if who answers to the questions knows the strategy and structure dynamics. So this research was conducted through the interviews to ensure that the interlocutors are prepared on strategy and structure dynamics. In fact the interviewed were exclusively the CEO or the CFO of the firms.

The *interview*, as a survey tool, has advantages such as flexibility, nonverbal behavior, environmental control, the order of questions, the completeness, the response from the interested interviewed, but it has also disadvantages such as the costs, the time, the interviewer’s influence and a less standardization of the questions formulation.

Consequently the interviews were semi-structured to be kept within the main question area but still open the possibility to get the interviewees own ideas and feelings. The interviews included also some questions to verify the good quality of answers. To obtain the necessary information the Chief Executive Officer, the Chief Financial Officer, the Directors of business units and consultants were interviewed.

The *main questions* discussed during the interviews are:

1. The kind of strategy (focusing on customer differentiation ...) and structure (multifunctional - multidivisional etc.) adopted;

2. Over the years there were changes in strategy or corporate structure?

3. In case of positive answer, what are the dates of changes and what kind of new structure or strategy was adopted giving some explanation?

4. In case of negative answer give some explanations;

5. The changes in strategy are always overlapped with changes in the structure?

6. The corporate structure changes have determined changes in strategy?

7. The different combination strategy-structure in the firm history

8. What are the reasons of changes in the structure and strategy?

9. In your opinion the corporate structure has always been adequate to the strategy?

10. What was the best combinations strategy-structure?

11. What was the economic performance of these choices?

It is increasingly important to select representative cases and validate the result continuously and not simply at the end of the study. In fact the *sample* analyzed consists in six groups of leading companies (for a total of 67 firms) working in the luxury yacht sector and they represent about the 58% of the Italian luxury yachts market and about the 18% of the worldwide market of the luxury yachts, like represented in the figure below.

Firms Group	Turnover 2006 (euro)
AZI	725.000.000
FI	668.000.000
RI	64.626.000
SM	45.848.000
AN	44.069.000
SO	85.892.000
Total	**1.633.435.000**

Luxury yacht italian market turnover 2006 (euro)	2.800.000.000
Luxury yacht world-wide market turnover 2006 (euro)	8.858.965.273
Italian market share of the analysed firms	**58,34%**
World - wide market share of the analysed firms	**18,44%**

Figure 2. The significance of the analyzed sample (own elaboration).

The decision to examine these six groups of large firms is also supported by the opinion of Eisenhardt (1989) on the approach to research through the method of "case study", which stimulates the use of multiple cases and she concludes that with a number of cases between four and ten it is possible to "work well", while with fewer than four cases is often difficult to be able to generate theories.

Considering these six groups of firms it was possible to elaborate some theories supported by the Eisenhardt approach to the case studies, ensuring the *reliability and validity* of the research for the number of selected cases, six groups of firms and the significance of the analyzed sample, representing about the 58% of the Italian luxury yachts market and about the 18% of the worldwide market of the luxury yachts. .

ISSN: 1796-9360

The sample

The cases included in the sample are six groups of leading companies (for a total of 67 firms) working in the luxury yacht sector and they represent about the 58% of the Italian luxury yachts market and about the 18% of the worldwide market of the luxury yachts.

In the following there is a selection of data about the groups of firms under scrutiny:

AZI Group

Currently the group produces 40 models, offering a wide range of yachts: Open / Sport Yachts, Fly - bridge and Mega - yacht. Through the various brand AZI operates in the open, fly and sport segments.

The group includes 17 companies operating in production and sale of yachts and in marine and service activities related to yachts.

The table below shows some data for the period 2001 -2007.

Table 1. Some data in AZI.

	31/08/2001	31/08/2002	31/08/2003	31/08/2004	31/08/2005	31/08/2006	31/08/2007	Average 2001 - 2007
(euro)								
Turnover	292.225.774	311.996.000	343.197.000	430.786.000	544.791.000	725.007.000	662.881.000	472.983.396
EBITDA	54.614.801	66.241.000	68.388.000	66.558.000	88.234.000	101.660.000	77.067.000	74.680.400
Net income	22.547.992	32.954.000	34.655.000	24.547.000	38.061.000	43.111.000	26.870.000	31.820.856
Total Assets	242.962.500	312.987.000	392.969.000	494.924.000	602.265.000	645.954.000	839.200.000	504.465.929
Equity	65.802.806	96.368.000	127.236.000	149.203.000	185.081.000	226.480.000	249.235.000	157.057.972

Source: own elaboration based on CCIAA and AIDA data

FI Group

FI is a world - wide leader in the design, construction and sale of luxury motor yachts, with a unique portfolio of nine of the most exclusive, prestigious brands in the nautical world.

The group includes 20 companies operating in production and sale of yachts and in marine and service activities related to yachts.

The table below shows some data of this group.

Table 2. Some data in FI[3].

	Cons.IFRS
	31/08/2007
	migliaia di euro
Turnover	668.152
EBITDA	108.717
Net income	12.438
Total Assets	2.626.105
Equity	366.049

Source: own elaboration based on CCIAA and AIDA data

RI Group

The group since the year 2000 is growing. The turnover rose from 30 million Euros in 2002 to 98 million Euros in 2008 and it operates in the fly, open, wooden boats segments.

The group includes 6 companies operating in production and sale of yachts and in marine and service activities related to yachts.

The table below shows some data of this group.

Table 3. Some data in RI[4].

	Average 2005 - 2007
Turnover	61.199.327
EBITDA	5.218.840
Net income	-314.561
Total Assets	94.122.635
Equity	3.753.781

Source: own elaboration based on CCIAA and AIDA data

AN Group

AN is active in this field since 1999 and it chose to position in the luxury motor - yachts segments from 40 feet. The group includes 11 companies operating in production and sale of yachts and in marine and service activities related to yachts.

The table below shows some data of this group.

Table 4. Some data in AN.

	31/08/2006	31/08/2007	31/08/2008	Average 2006 - 2008
(euro)				
Turnover	45.285.067	49.583.109	68.581.000	54.483.059
EBITDA	15.368.340	19.425.667	-7.803.000	8.997.002
Net income	6.794.226	5.358.416	-23.138.000	-3.661.786
Total Assets	62.270.650	101.519.447	155.693.000	106.494.366
Equity	13.674.124	17.409.499	35.002.000	22.028.541

Source: own elaboration based on CCIAA and AIDA data

[3] Thousand Euros
[4] Euros

ISSN: 1796-9360

SM Group

The 2008 year closed with a record growth: the turnover stood at about 68 million, 21% more than the previous year.

The group includes 5 companies operating in production and sale of yachts and in marine and service activities related to yachts.

The table below shows some data of this group.

Table 5. Some data in SM.

	31/08/2006	31/08/2007	31/08/2008	Average 2006 - 2008
(euro)				
Turnover	45.848.616	55.680.454	67.976.111	56.501.727
EBITDA	5.193.155	4.799.787	5.958.719	5.317.220
Net income	2.273.246	508.878	2.982.826	1.921.650
Total Assets	25.170.659	30.923.945	42.873.413	32.989.339
Equity	6.193.231	6.816.048	10.174.875	7.728.051

Source: own elaboration based on CCIAA and AIDA data

SO Group

SO chose to position in the Fly - bridge Motor - yacht segment between 62 feet and 108 feet and in the mega - yacht segment.

The group includes 8 companies operating in production and sale of yachts and in marine and service activities related to yachts.

The table below shows some data of this group.

Table 6. Some data in SO[5].

	31/12/2006	31/12/2008	Average 2006 and 2008
Turnover	85.982.758	128.289.475	107.136.117
EBITDA	6.016.842	21.819.090	13.917.966
Net income	719.659	9.057.603	4.888.631
Total Assets	129.886.297	237.713.997	183.800.147
Equity	38.275.686	17.321.654	27.798.670

Source: own elaboration based on CCIAA and AIDA data

[5] Euros

FINDINGS

In this paragraph for each group of firms it is highlight the strategy – structure combination adopted over the years and the achieved performance measured by ROA and ROE, justified by the Fryxell and Barton research and the family firm is identified through the definition given by Chua illustrated in the previous paragraph.

The AZI Group

This group is classified like a Family firm.

In this group many changes in strategy and structure are verified and the following table summarizes the different strategy - structure combinations which occurred over the years in AZI.

Table 7. Strategy and structure combination in the AZI firm.

Years	*Strategy*	*Structure*
1970-1985	*Cost Leadership towards Differentiation/Analysis*	*Functional*
1985- 1997	*Differentiation / Exploration*	*Divisional*
Since 1997	*Focused differentiation /Exploration*	*Divisional with review*

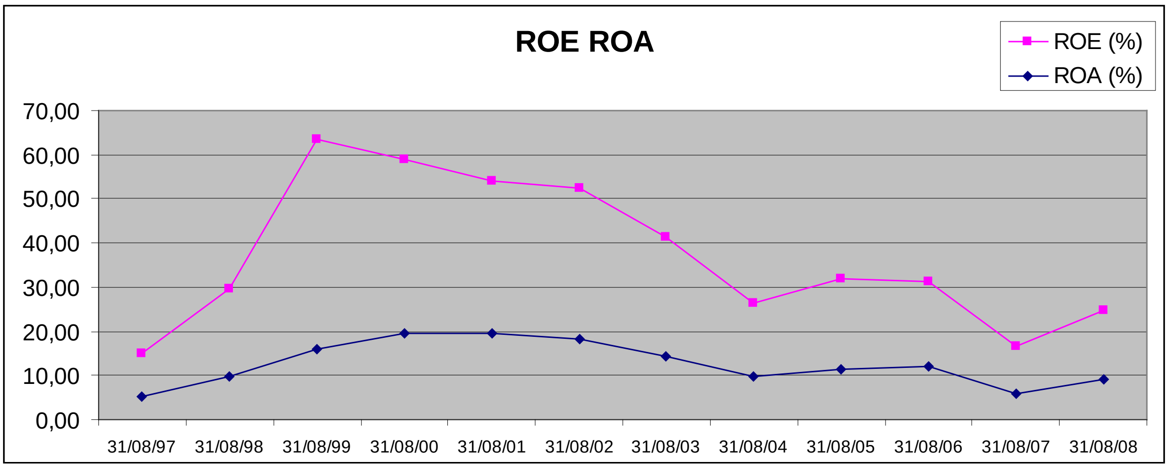
Source: own elaboration

The years from 1970 to 1985, from 1985 to 1997 and from 1997 to the present are the years where the most changes are verified.

The years that mark the turning point and the need of change are the 1985 and the 1997.

For uniformity and availability of data it is analyzed what it is happened in the period of change since 1997 and the chart below shows the ROA and ROE from 1997 to 2008. With regard to the data contained in the chart it occurs to specify that the indicators reflect the corporate strategy of the firm AZI and to take into account the corporate strategy the indicators of the years ranging from 2001 to 2008 were calculated on values reported in the consolidated balance sheet, while those ranging from 1997 to 2000 were calculated on values related to the financial statements.

Chart 1. ROA and ROE in AZI.



Source: own elaboration based on CCIAA data

How it shown in the chart the group improves its performance until to achieve significant peaks between the 1999 and the 2003, while from the 2004 until the 2006, the two indicators stabilize and then they decrease until 2008.

This trend shows how the group achieves good results (from 1999 to 2002) when the strategy is supported by the structure, or rather when strategy and structure are perfectly matched, but when these two variables are not balanced the performances are adversely affected.

Over time the structure suffered some adjustments to successfully implement the strategy. In fact in AZI, once chosen the strategy to implement, the structure evolves and changes until it finds the right balance influencing the performance. This is clear for years ranging from 1997 to 2003 where performance is continually improving.

Consequently the business results in decrease (from 2004 to 2008) are a mark of a misalignment strategy - structure and therefore it is essential to rethink the combination.

In fact AZI is moving toward logic of processes management to find the new equilibrium strategy - structure.

The corporate strategy in the AZI is based on the differentiation and the external environment dynamism is controlled by product innovation, even if the firm still makes changes to the strategy, like for example to move from a competitive advantage based on the designs and the technical performance to a competitive advantage related to the offered services.

The FI group

This group is classified like a Non - Family firm.

In this group many changes in strategy and structure are verified and the following table summarizes the different strategy - structure combinations which occurred over the years in FI.

ISSN: 1796-9360

Table 8. Strategy and structure combination in FI.

Years	*Strategy*	*Structure*
1980-1990	*Differentiation / Exploration*	*Elementary/Functional*
1990- 2000	*Differentiation toward Focused differentiation / Exploration*	*Functional / Divisional*
Since 2000	*Focused differentiation / Exploration*	*Divisional*

Source: own elaboration

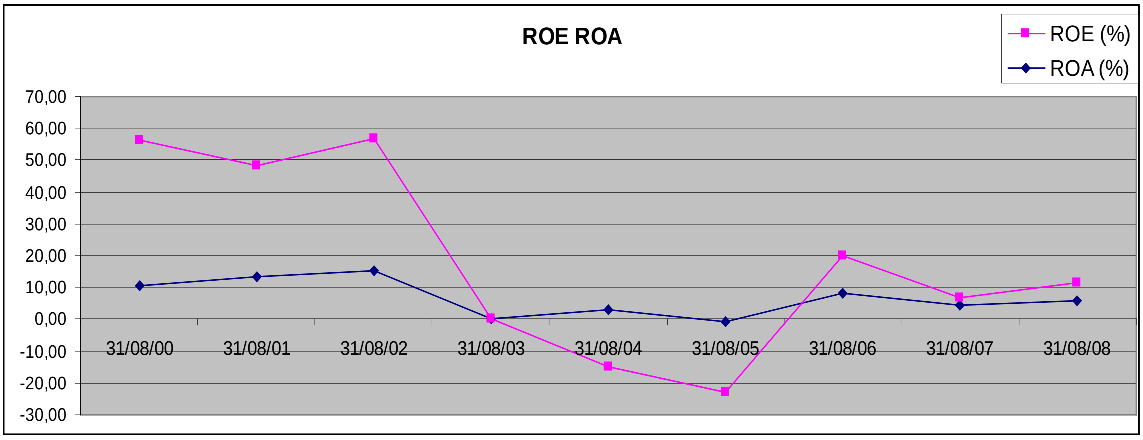
The years from 1980 to 1990, from 1990 to 2000 and from 2000 to present are the years where the most changes are verified.

The years that mark the turning point and the need of change are the 1990 and the 2000.

For uniformity and availability of data it is analyzed what it happened in the change period since 2000 and the chart below shows the ROA and ROE from 2000 to 2008.

With regard to the data contained in the chart it occurs to specify that the indicators reflect the corporate strategy of FI and all the indicators were calculated on values reported in the consolidated balance. In addition it states that the year 2003, year affected by extraordinary operations, was not considered.

Chart 2. ROA and ROE in FI.



Source: own elaboration based on CCIAA data

When the strategy (year 2000), differentiation and product innovation, is aligned to the structure, divisional structure, the performance increase to 2002.

In the following years, from 2004 to 2008, the results decrease, although the corporate strategy is not changed, differentiation and the product innovation, and the structure do not suffered significant changes.

This decrease of performance points out that the corporate strategy, both in terms of competitive advantage and the manner to response to the external environment stimuli, and the structure must be rethought in order to achieve better performance; no change, for several years, in strategy or structure involve a decrease in performance.

The RI Group

This group is classified like a Family firm.

In this group many changes in strategy and structure are verified and the following table summarizes the different strategy - structure combinations which occurred over the years in RI.

Table 9. Strategy and structure combination in the RI firm.

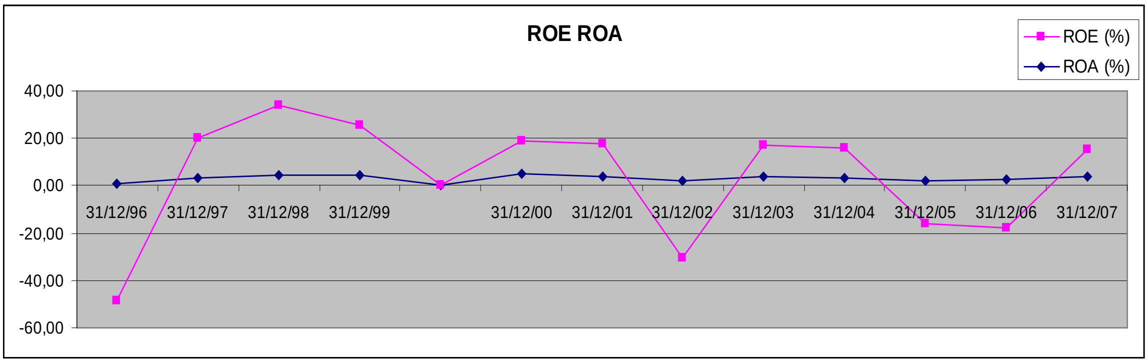
Years	*Strategy*	*Structure*
1980-2000	*Differentiation / Defensive*	*Functional*
Since 2000	*Focused differentiation / Exploration*	*Functional*

Source: own elaboration

The years from 1980 to 2000 and from 2000 to the present are the years where the most changes are verified.

The year that marks the turning point and the need of change is the 2000. For uniformity and availability of data it is analyzed what happened in the period of change since 2000 and the chart below shows the ROA and ROE from 2000 to 2007. With regard to the data contained in the chart it occurs to specify that the indicators reflect the corporate strategy of the firm FI and to take into account the corporate strategy the indicators of the years ranging from 2005 to 2007 were calculated on values reported in the consolidated balance sheet, while those ranging from 2000 to 2004 were calculated on values related to the financial statements.

Chart 3. ROA and ROE in RI.



Source: own elaboration based on CCIAA data

Following the change in strategy and some small changes in the structure, the group maintains a constant ROA, and the ROE swing between positive and negative values.

The strategy changes from differentiation / defensive to focused differentiation / exploration, but the structure doesn't change. In fact the group, though some variations, maintains a functional structure. Consequently it is possible to affirm that the structure caged the strategy and it does not allow the achievement of good performance.

This means that strategy and structure have not yet found the right balance and the structure did not allow the strategy to achieve good results.

It's difficult to realize a differentiation strategy into a multi-functional structure and it is important for RI to find the right combination strategy - structure to enable the new strategy to generate the due results.

The AN Group

This group is classified like a Family firm.

In this group many changes in strategy and structure are verified and the following table summarizes the different strategy - structure combinations which occurred over the years in AN.

Table 10. Strategy and structure combination in AN.

Years	*Strategy*	*Structure*
1999-2005	***Differentiation / Analysis***	***Elementary***
Since 2005	***Focused differentiation / Exploration***	***Divisional***

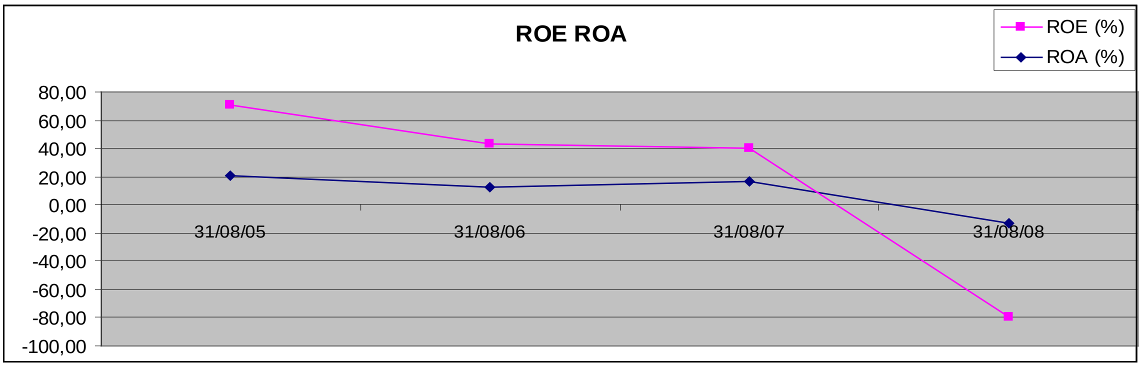
Source: own elaboration

The years from 1999 to 2005 and from 2005 to the present are the years where the most changes are verified.

The year that marks the turning point and the need of change is the 2005.

For uniformity and availability of data it is analyzed what it happened in the period of change since 2005 and the chart below shows the ROA and ROE from 2005 to 2008. With regard to the data contained in the chart it occurs to specify that the indicators reflect the corporate strategy of the firm An and to take into account the corporate strategy the indicators of the years ranging from 2005 to 2008 were calculated on values reported in the consolidated balance sheet.

Chart 4. ROA and ROE in AN.



Source: own elaboration based on CCIAA data

Both the indicators have a clearly decreasing trend, although this trend is more evident in the ROE.

In the year 2005 there is a strategic change: the firm from an analysis strategy, change into an exploratory strategy and it enters into new market segments focusing on particular types of customers and the structure changes.

In fact, the firm tries to change its elementary structure into divisional structure and this change is being implemented from 2007. The analysis shows how the decreasing trend of the two selected indicators is due to this reorganization which has not yet been completed. In particular, the Business Units created have not yet reached the autonomy that characterizes the divisions.

Moreover, in the 2008 as regards the commercial plan, the Group has developed a series of strategies to strengthen and to revitalize their business; in particular it tries to improve the geographical articulation of its distribution network.

Besides the interventions, made during the year on the production area, have the goal to raise the quality of the product. In particular, the group has focused on an increase in standardization and in quality control procedures in the production units and it was also constituted a transversal team to manage all the units.

For the lines affected by the phenomenon of misalignment of quality, the group has implemented some specific improvement programs, to avoid the additional costs of rework (which had a significant weight in the 2008).

Some inefficiencies are related to the production misalignments due to business interruption for an ineffective management of internal timing, especially for the production plan changes, due to the cancellation of orders and the rework activities.

The SM Group

This group is classified like a Family firm.

In this group many changes in strategy and structure are verified and the following table summarizes the different strategy - structure combinations which occurred over the years in SM.

Table 11. Strategy and structure combination in SM.

Years	*Strategy*	*Structure*
1968-1988	*Cost Leadership / Defensive*	*Elementary toward Functional*
1988- 1997	*Cost Leadership toward Differentiation / Analysis*	*Functional*
Since 1997	*Differentiation / Analysis*	*Functional with reviews*

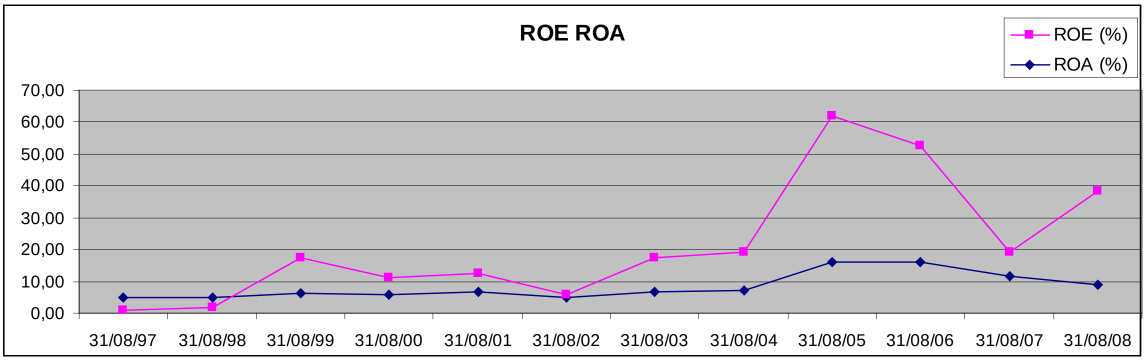
Source: own elaboration

The years from 1968 to 1988, from 1988 to 1997 and from 1997 to present are the years where the most changes are verified.

The years that mark the turning point and the need of change are the 1988 and the 1997.

For uniformity and availability of data it is analyzed what it happened in the period of change since 1997 and the chart below shows the ROA and ROE from 1997 to 2008. With regard to the data contained in the chart it occurs to specify that the indicators reflect the corporate strategy of the group SM and to take into account the corporate strategy the indicators of the years ranging from 2006 to 2008 were calculated on values reported in the consolidated balance sheet, while those ranging from 1997 to 2005 were calculated on values related to the financial statements.

Chart 5. ROA and ROE in SM.



Source: own elaboration based on CCIAA data

It is possible to point out that when the strategy and the organizational structure become clear and structured the performance begins to improve, from 2002 to 2006. The group, once clarified the strategy, but above its goals, has changed the organizational structure in order to allow implementation of the strategy. In the recent years (2007,

ISSN: 1796-9360

2008), characterized by the decision to enter into a new market segment, the fly - bridge, it is evident a decreased of the results, underlining again the need to adapt the structure which follows a change of strategy to implement.

When strategy and structure are aligned (2004 - 2006) there are visible improvements in performance, but the bending of the results indicates clearly a change in strategy not followed by a change in the structure (2007 - 2008).

The SO Group

This group is classified like a Family firm.

In this group many changes in strategy and structure are verified and the following table summarizes the different strategy - structure combinations which occurred over the years in RI.

Table 12. Strategy and structure combination in SO.

Years	*Strategy*	*Structure*
1958 - 2004	*Differentiation /Defensive*	*Elementary*
Since 2005	*Focused differentiation / Analysis*	*Divisional*

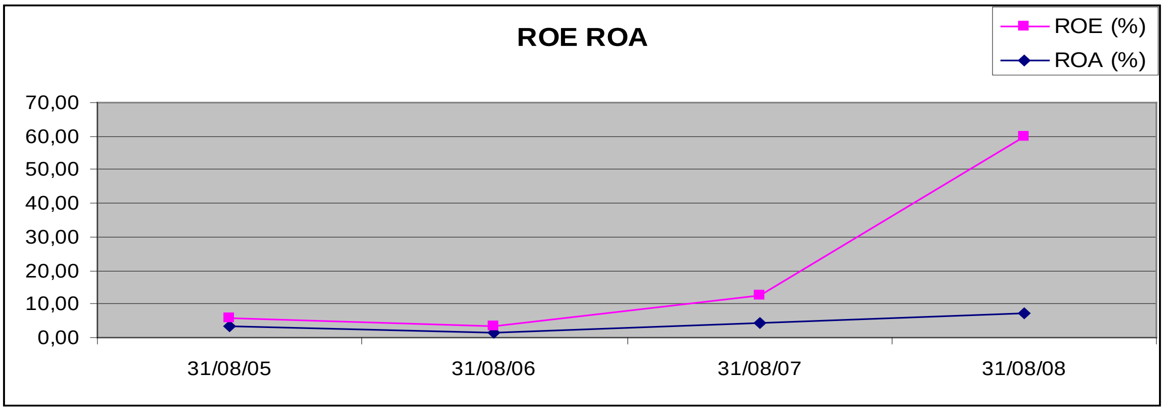
Source: own elaboration

The years from 1958 to 2004 and from 2005 to the present are the years where the most changes are verified.

The year that marks the turning point and the need of change is the 2005.

For uniformity and availability of data it is analyzed what it happened in the period of change since 2005 and the chart below shows the ROA and ROE from 2005 to 2008. With regard to the data contained in the chart it occurs to specify that the indicators reflect the corporate strategy of the group SO and to take into account the corporate strategy the indicators of the years 2006 and 2008 were calculated on values reported in the consolidated balance sheet, while for the years 2005 and 2007 the indicators were calculated on values related to the financial statements.

Chart 6. ROA and ROE in SO.



Source: own elaboration based on CCIAA data

It's evident that from 2005 to 2008 the ROA increases moderately and the ROE has an abnormal peak in 2008, while from 2005 to 2007 it follows a trend of slow growth.

Omitting the year 2008 it is possible to affirm that performance are contained, but in growing, and this indicates how the change of strategy and the change in organizational structure have a positive impact on performance, but with possibility of improvement.

Results discussion

The analysis conducted shows clearly that in some firms, AZI, FI and SM, if there is a strategic change also the structure changes and influences the strategy; and after two or three years the impact on performance is positive if the strategy and structure are perfectly aligned. These good results persist on average for four years, but then there is a decrease in performance. This fact shows that, though there is a good balance between these two variables, it is not possible to maintain unchanged strategy and structure over time, if the firm wants to achieve excellent results. This is due to the fact that the external environment varies and the firm must be able to incorporate these changes and to adapt it to take every opportunity, even when the market is in crisis. For example just in crisis period, like in these years, it is not possible to maintain the same strategy or structure, but it must adapt to avoid the adversities.

The analysis of firms RI, AN, SO and SM (with particular reference to certain years, 2007 and 2008) underlines that is not sufficient to change the strategy to achieve good results, but it occurs that the structure should be proper to the strategy that the firm wants to implement.

It's clear how the performance of these companies generally:

- do not reveal some specific improvements;
- are fluctuating or with a decreasing trend.

The firm FI also shows that no change both in strategy and in structure has a negative impact on performance. Consequently it appears that the structure is a crucial variable for a proper implementation of the strategy and when this combination, strategy - structure is not aligned, the companies fail to achieve good results. In fact, when the strategy or the structure does not change the performance is decreasing, but when both the strategy and the structures are modified and they are in line with business goals, the companies reach good results.

It emerges also that the best strategy – structure combination is divisional structure and differentiation strategy.

Base on the final findings it's possible to affirm:

- that the causal relationship between changes in strategy and structure is reciprocal, confirming the part of the literature represented by Hoskinsson 1987, Drazin 1987, Mintzberg 1990;
- that it's more relevant to consider the results obtained by the different matching strategy and structure, without emphasize the temporal order of changes in

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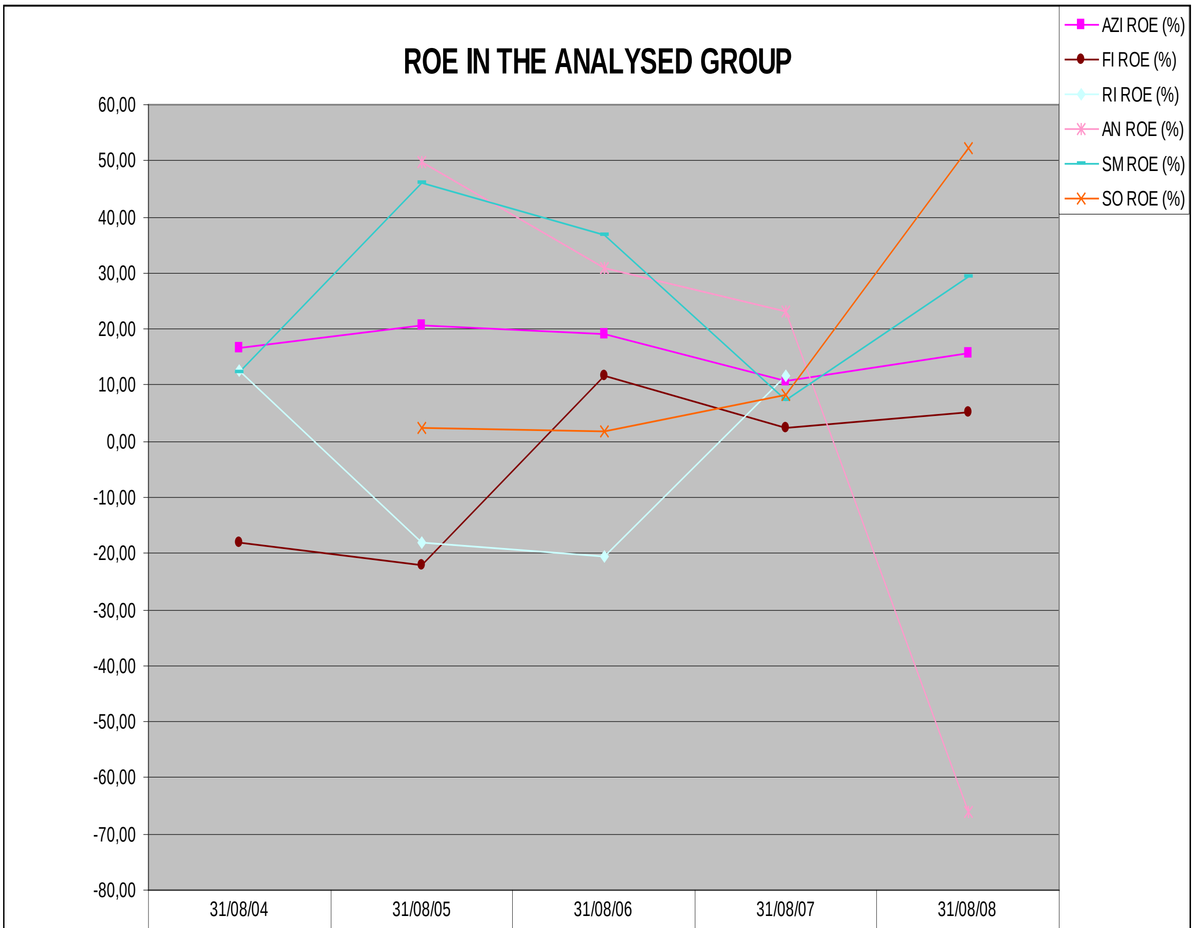
strategy and structure, confirming the part of literature represented by Harris and C. Ruefli TW 2000;

- that the best combination strategy - structure is the differentiation strategy with the divisional structure confirming the part of literature represented by Chandler, Pavan, Whittington.

Comparing the results in terms of ROE and ROA (for uniformity the years from 2004 to 2008 are considered) it’s evident, how the charts below show, that FI, Not Family firm, outperforms respect the other groups. The performance decreases in not family firms, also if the strategy and structure combination is aligned. In AZI, RI and SM, family firms, like in FI, not family firms, the individuation of the new strategy – structure combination is already occurred since some years, on the contrary in SO and in AN the 2005 is the year of change, but the not family group outperforms among the family group.

Chart 7. ROE in the analyzed groups.



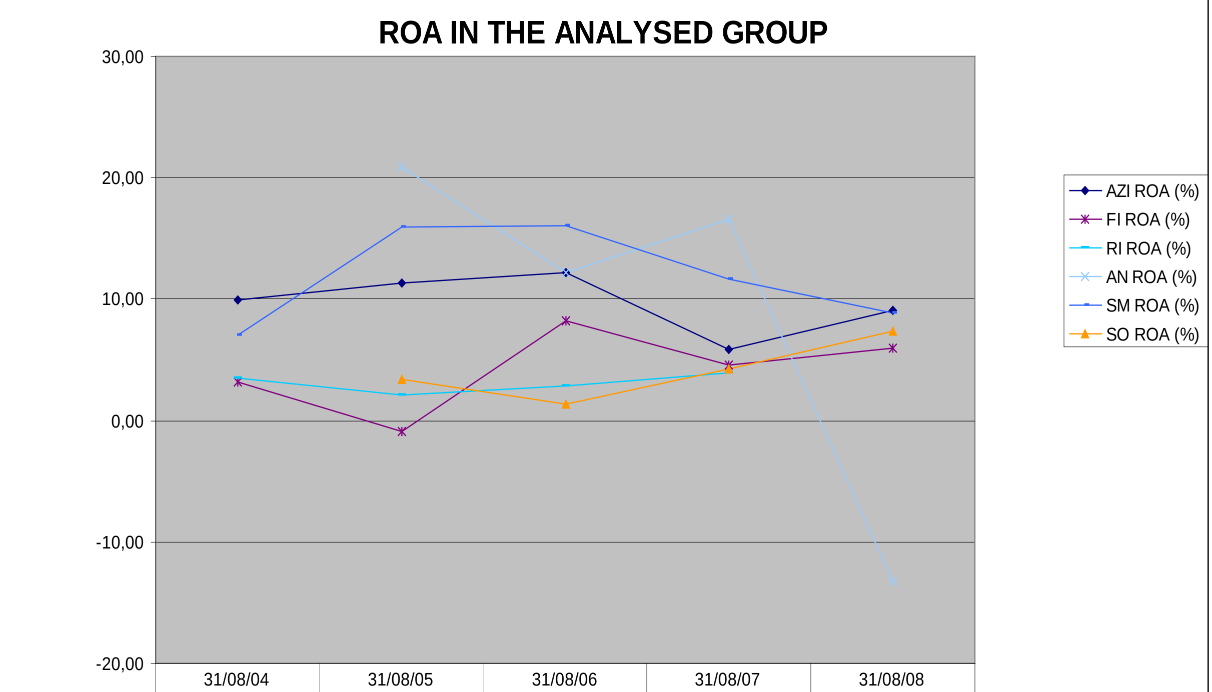
	31/08/04	31/08/05	31/08/06	31/08/07	31/08/08
AZI ROE (%)	16,50	20,60	19,00	10,80	15,60
FI ROE (%)	-17,90	-21,98	11,80	2,31	5,31
RI ROE (%)	12,64	-18,05	-20,48	11,70	
AN ROE (%)		49,69	30,78	23,15	-66,10
SM ROE (%)	12,30	46,00	36,70	7,50	29,30
SO ROE (%)		2,30	1,90	8,30	52,30

Source: own elaboration based on CCIAA data

The worst results in terms of ROE were obtained from FI, not family firms, in the years 2004, 2005 and 2007, while in the years 2006 FI obtains the third worst result and in the years 2008 the second worst result.

Also the analysis of the ROA doesn't disclose good results about not family group.

Chart 8. ROA in the analyzed groups.



	31/08/04	31/08/05	31/08/06	31/08/07	31/08/08
AZI ROA (%)	9,90	11,30	12,20	5,90	9,10
FI ROA (%)	3,17	-0,87	8,20	4,60	6,01
RI ROA (%)	3,48	2,09	2,83	3,89	
AN ROA (%)		20,93	12,24	16,53	-13,23
SM ROA (%)	7,00	15,90	16,10	11,70	8,90
SO ROA (%)		3,40	1,40	4,30	7,40

Source: own elaboration based on CCIAA data

In terms of ROA the worst results were obtained by FI, not family firms, in the years 2004, 2005, while in the years 2006 and 2007 FI obtains the third worst result and in the years 2008 the second worst result.

Also analyzing the ROA and ROE average from 2004 to 2008, it emerges that the not family firm, FI, fills the worst places in the ranking. In fact FI is the last in the ROE ranking and the fourth in ROA ranking.

Table 13. ROA and ROE ranking.

	AVERAGE YEARS 2004 - 2008	ROA RANKING	ROE RANKING
AZI ROA (%)	9,68	2	
AZI ROE (%)	16,50		2
FI ROA (%)	4,22	4	
FI ROE (%)	-4,09		6
RI ROA (%)	3,07	6	
RI ROE (%)	-3,55		5
AN ROA (%)	9,12	3	
AN ROE (%)	9,38		4
SM ROA (%)	11,92	1	
SM ROE (%)	26,36		1
SO ROA (%)	4,13	5	
SO ROE (%)	16,20		3

Source: own elaboration

Analysis the results obtain by the different group of firms it’s possible to conclude that *family firms are better than non – family firms* and the most value is created in family firms, confirming the part of literature represented by Anderson and Reeb.

LIMITS

This research presents some limits that can be summarized as follows:

a) the analysis was conducted using qualitative data which can be affected by subjectivity;

b) the study was conducted using a sample of successful companies operating in the same sector, but only with large size; it is opportune for the future analysis to consider also small firms;

c) the conducted research emphasizes the family, the strategy and the structure combination and their mutual influences, but it is important to specify that the strategy success depends not only on the variable structure or family, but also by a set of other factors, such as the management control system, the quality of human resources and the tools to "develop" these; the appropriateness of the technology available to the company, etc.;

d) the present study analyzes the impact on performance of the strategy – structure combination and family, but it is important to specify that the performance can be affected by other factors which can be both endogenous (like the breach of a supply contract or a fire) and exogenous (like the growth of commodity prices ect).

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CONCLUSION AND CONTRIBUTION

Concluding it is possible to affirm that *strategy and structure* are in *continuous iteration* and it is crucial for the performance that these two variables change over time to meet to continuous and different stimuli from the environmental that arise, but it's also important that they find the right balance. Particularly in the literature some authors, like Andrews, Hofer & Schendel, Porter, even support that the strategy should align the business to the environment where the firm operates. In this way the strategy is seen as an adaptation mechanism (Hambrick, 1983).

The present study has shown that if the *strategy and structure are aligned it is possible to achieve good performance.* Just Kaplan and Norton (2006) argue that the "strategic dream" often turn into nightmares if companies start to engage in costly corporate restructuring. They argue that, when the corporate strategy and structure are misaligned, it is better to choose a strategic design that works well and then to move to develop a strategic system that allows the structure "to get in tune" with the strategy. The structure is not a neutral variable in the formulation of strategies, but it conditions and sometimes preselects the strategy (Onetti, 2002).

In addition this research highlights that the *best results are achieved by family groups*, also if sometimes strategy and structure are not aligned. It's clear that a correct strategy – structure combination allows that the best performance are achieved, but when there is a family that manages a firm or a group of firms the results improve, like underlined in this study.

About the relevance of the research for the *business world*, underlining the *managerial and educational issues*, this study wants to aid both the family and non family firms to reflect on the strategy and how to implement it, in particular focusing on one critical aspect: the need of an appropriate organizational structure to support the strategic choices. In fact often the firms change structure and strategy, but frequently they don't reflect if the strategy or the structure is aligned and if the structure is proper to implement the strategy. This alignment is always important, but even more when there is a crisis period to overcome. Besides the presence of the family influences positively the performance, due to the decisional processes, turning out more effectiveness in family firms than in non family.

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FAMILY BUSINESS GOVERNANCE STRUCTURES: INCIDENCE AND EFFECTS

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Abstract

The research focused on governance systems in family businesses and was based on survey data from 241 organizations. Analyses found 25 percent of the family businesses had no structured system and 75 percent had governance systems comprised of one or more of the following: boards of directors, advisory boards, and/or family meetings. Types of systems were related to desirable outcomes identified as revenue generation, family business continuity, and family/business planning. A key finding was that family businesses that had some type of a formal structure had a higher level of planning that led to higher revenues. The existence of either a board of directors or an advisory board was positively related to transitioning businesses to later generations. Implications for family businesses are discussed.

Key words: family business governance, boards of directors, family meetings.

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INTRODUCTION

Governance issues in business organizations have received much attention in the last few years due to various scandals and the subsequent changes in US regulations related to financial reporting practices (Oswald, Muse & Rutherford, 2009). Although family firms have different governance needs than publicly traded firms, they still use some form of organization governance (Ward, 2003; Jara-Bertin, Lopez-Iturriaga and Lopez-de-Foronda, 2008; Voordeckers, Van Gils and Van den Heuvel, 2007). In non-family firms, "the governance role centers on corporate oversight on behalf of the shareholders and other stakeholders, maintaining managerial accountability, and ratification of strategic plans and investment proposals (Blumentritt 2006, p.66). Authors suggest that "Family ownership concentrates control and facilitates decision making, which can both lower governance costs and permit unconventional but strategically advantageous decisions" (Ward and Leif 2005, p. 1). This study examines family business governance structures and attempts to answer the following questions: What types of governance structures do family businesses utilize (for example, formal board of directors, advisory boards, family meetings)? If the roles, relationships and needs are different for family businesses, what forms of governance effectively address management practices such as planning and business performance?

Family business boards

Ownership separates governance systems in family owned businesses from governance systems in publicly owned firms. In family businesses, boards are just one partner in a complex governance process, rather than the dominant player. Research suggests that the majority of family businesses operate without boards or with boards serving as largely unused appendages (Pervin, 2001).

Research on boards in family businesses is limited, but some empirical studies have been conducted. In a preliminary study regarding the structure and management of family boards, Ward and Handy (1988) concluded that the CEOs of family firms with outside directors rated those boards as considerably more valuable than did the CEOs of companies with boards limited to insiders.

Another study conducted by Whisler (1988) found that "threshold" sized family firms with outside directors grew faster than similar firms without outside directors.

Ford (1988) reported the results of his study on tightly held firms, most of which probably could be classified as family businesses. He concluded that outside directors were neither as influential nor as effective as the other studies indicated.

The most comprehensive empirical data gathered on family businesses occurred in a series of studies entitled "American Family Business Survey," during 1995 (Arthur Anderson & Co.), 1997 (Arthur Anderson/Mass Mutual), and 2003 (Mass Mutual Financial Group/Raymond Institute). These studies intended to provide an empirical overview of key aspects of family businesses in America. The 1995 and 1997 surveys included responses from over 3,000 family businesses, and the 2003 survey included responses from nearly 1,200 family firms. The results of the studies appear to be fairly consistent over time, indicating that family boards in general, although widely perceived to be valuable (roughly 60 percent were viewed as providing "good" or "outstanding" value), meet relatively infrequently and provide no, or only modest, compensation to board members. Thus, it appears the role of boards in family businesses is limited. Although many of the writings summarized above discuss the potential contributions of boards, and particularly boards with outsiders, family businesses appear reticent to utilize boards heavily.

Much of the research on boards of directors for family businesses has attempted to assess their value using CEOs' perceptions. Although CEOs' perceptions about value are important, several related issues need to be explored. For instance, do boards have a direct impact on revenues or is the impact more indirect? Boards can play an important role in many arenas that could indirectly impact revenues such as encouraging several aspects of planning.

Blumentritt (2006), after arguing that a positive relationship should exist between the existence of a board of directors and planning, failed to find much support for this relationship. The results found weak support for a link between strategic planning and the existence of a formal board, and failed to find a relationship between succession planning and the existence of a formal board. However, the results did suggest that there was a relationship between the existence of advisory boards and both strategic planning and succession planning. The research isn't clear on whether relationships exist between boards and various types of planning.

Boards in family business governance systems differ from boards in publicly held firms in both their basic functions and their operating complexity, and in roles that they play. These differences are driven by the fact that family firms are different than other businesses and impose special demands because of the need to consider a number of family issues (for example, family values, family financial matters, family members' business participation) in board thinking and decision-making. There needs to be a mechanism for identifying key family issues, generating family consensus regarding those issues, and communicating the family stance on those issues to the organization in the form of a mandate (Pervin 2001; Aronoff and Astrachan 1997; Poza 2003). In well-developed family business governance systems, this mechanism often is referred to as the family council or family meeting.

Family meetings

Family meetings are "…periodic gatherings (that) bring the family together to share goals and decisions, discuss common problems, learn about the business, and preserve family identity, values and traditions" (Aronoff and Ward 1992, p.3). Aronoff and Ward (1992) emphatically stated that these family gatherings can help build both a stronger family and a stronger business, and that they believe "…family meetings are one of the two most important steps a business owner can take to ensure the continuity of the family business" (p.3).

These thoughts followed Ward's (1987) discussion of his study of successful family businesses, in which he identified three principles that appeared to guide such companies: a commitment to the future, a system of extensive communication, and conscientious planning. The family meeting was viewed as the key vehicle for implementing these principles.

Although there is logic to claiming that family meetings are a key to family business success, there has been little empirical research that demonstrates the value of family business meetings or that identifies under what conditions they are valuable.

Only one of the three most comprehensive empirical data gathering surveys (Arthur Anderson & Co. 1995; Arthur Anderson/Mass Mutual 1997; Mass Mutual Financial Group/Raymond Institute 2003) in the series entitled "American Family Business Survey" had any questions regarding family business meetings. That study, in 1995, found 32 percent of family businesses held formal family meetings. Of those that held such meetings, 91.4 percent discussed business, 52 percent discussed ownership, and 49 percent discussed non-business topics. Those were the limited findings. Outcomes from having a meeting, or from the issues discussed, were not examined in the study.

A more limited study by Astrachan and Kolenko (1994) found 51 percent of the family businesses they surveyed hold regularly scheduled family meetings limited to family members in the business. Further, their research found that firms with governance practices that included strategic plans, boards of directors, and family meetings were related to business longevity, and with firm revenues to a lesser degree. Family meetings were not broken out as a separate item in the correlations, so it is not possible to determine if one of these practices, or a combination of them, is related to longevity.

In a more focused study on the way family meetings impact family business, Habbershon and Astrachan (1997) built a model to show how family meetings develop family unity through creating perceived shared beliefs regarding goals that may be an important stimulant of collective family activity focused on actions to achieve those goals. The study keyed on the theoretical model and on the ability of instruments to measure perceived agreement and not on empirical measurements of relating family meetings to outcomes.

The limited research on family meetings has not directly examined the relationship between the existence of family meetings and the level of strategic planning activities or the relationship between the existence of family meetings and organizational performance. This study examines these relationships.

Theoretical framework

While much has been written individually about boards of directors, family meetings and their desirability as a key element of any business, little empirical research has been conducted to demonstrate that this is so. Some of the research (e.g.,Astrachan and Kolenko, 1994) suggests that the influence of these governance systems may happen indirectly through better management practices such as planning. While others suggest that the effect is more direct (Aronoff and Ward, 1992) by building a common sense of purpose for the family. Figure 1 shows the framework used in the present study to evaluate the direct and indirect effects of governance systems on family business performance. Business performance is defined in two ways: revenue generated and longevity of the family business.

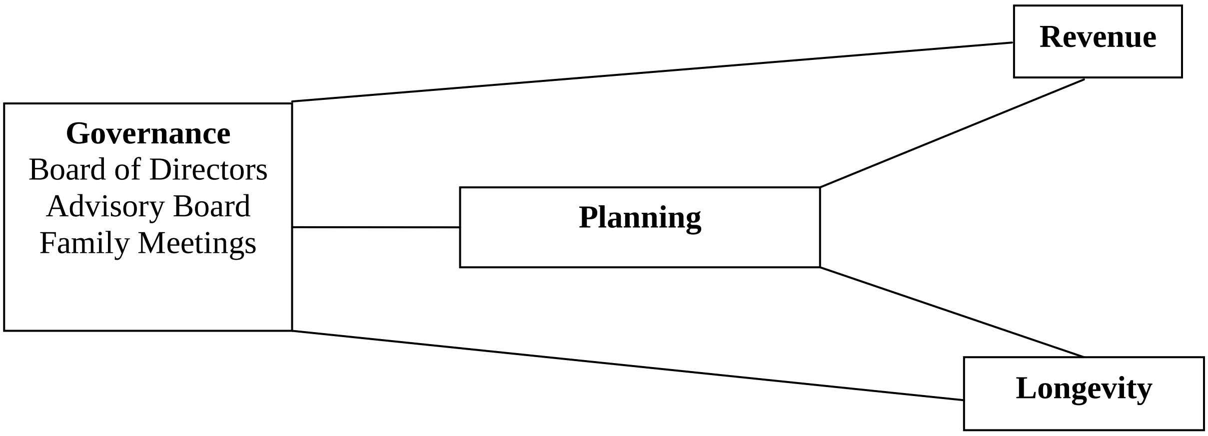

Figure 1. Family Business Governance - Performance Theoretical Framework.

METHOD

Sample

A survey concerning family business governance was sent to 926 family businesses in a midwestern state. These were all of the businesses in the state that had been identified as being family owned and large enough to justify having governance structures (i.e., more than 9 employees). Of those 926 businesses, 244 returned surveys. Respondents were asked if the business was a family business; if they were not, they were dropped from the sample. Only three such businesses were identified, thus reducing the sample to 241, for a response rate of 26 percent.

Survey

The initial set of questions focused on the characteristics of the business, including revenue and the generation that currently controls the business. A second set of questions focused on business and family planning activities. The final set of questions focused on governance of the family business by asking about the existence of an informal board of advisors, existence of a formal board of directors, characteristics of the formal board, existence of family meetings, and characteristics of the meetings: business issues discussed, attendees, decisions made.

ISSN: 1796-9360

Table 1. Descriptive statistics and variable names for all variables used in analyses.

Variable Definition	*Mean*	*Std. Deviation*	*Valid N*
Age of company	52.49	28.85	212
Outcomes			
Generation controlling the business[6]	2.15	.909	241
Revenue[7]	3.50	1.740	238
Planning			
Have a written estate plan[3]	0.66	0.474	216
Have a formal business mission statement[3]	0.61	0.489	222
Have a written succession plan[8]	0.33	0.472	217
Have a written family mission statement[3]	0.12	0.325	218
Governance			
Have a formal board of directors[3]	0.55	0.499	240
Have an informal advisory board[3]	0.25	0.436	241
Hold formal family meetings[3]	0.33	0.470	235
Board of Directors' Characteristics			
Percentage of board outside family/business	17.07	25.901	132
Compensation of outside board members[9]	2.24	1.140	58
Compensation of family board members[4]	2.05	1.201	148
Number of formal board meetings per year	2.28	1.076	156

Descriptive Statistics

Table 1 summarizes the descriptive statistics for all of the variables. As seen in Table 1, the average company is in its second generation. Of the family businesses, 55 percent have a formal board of directors and 25 percent have an informal advisory board, but only 17 percent of the board members are outside of the family.

[6] Actual generation, first = 1, second = 2, etc.
[7] Coded 1=$0-$999,999, 2=$1Mil - $4Mil, 3=$5Mil - $9Mil, 4=$10Mil - $24Mil, 5=$25Mil - $49Mil, 6=$50Mil – $99Mil, 7=$100Mil - $199Mil, 8 = $200Mil or more
[8] Coded yes=1, no=0
[9] Coded 0 = 0, 1=$1-$999, 2=$1000-$4999, 3=$5000-$9999, 4=$10,000 or more

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RESULTS

The following sections answer several questions related to governance. Table 2 summarizes the questions and analyses performed to answer these questions.

Table 2. Summary of questions asked and analyses performed.

Question	***Variables***	***Analyses***
What are the most frequently used governance techniques?	Formal Boards, Advisory Boards, Family Meetings	Frequency (See Table 1)
What are the most frequently used combinations of governance techniques?	Formal Boards, Advisory Boards, Family Meetings	Venn Diagram and Chi Square Analysis
Are governance techniques related to planning and performance?	Independent: Formal Boards, Advisory Boards, Family Meetings Dependent: Business Mission, Family Mission, Estate Planning, Succession Planning Dependent: Generation and Revenue	Regression Analyses

Most frequently used combinations of governance techniques

The first analyses were performed to obtain an understanding of the use of governance techniques of informal boards, formal boards and family meetings in conjunction with each other by conducting basic cross tabulations of formal boards, advisory boards and family meetings. The Venn diagram in Figure 2 graphically shows the combinations of governance techniques. The most frequent combination is having a formal board, no advisory board and no family meetings. The second most frequent is having no governance structure at all, but five percent of family businesses reported having all three governance structures.

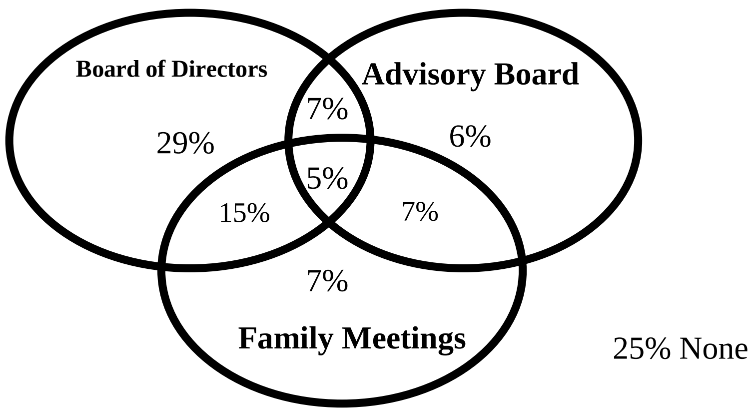

Figure 2. Percentage of Family Businesses with Various Combinations of Small

Business Governance Structures.

To test if the pattern of structures was uniform, a *Chi Square* analysis was performed. Table 3 presents the frequency in each cell along with standardized residuals. The overall *Chi Square* analysis was significant (*Chi Square* = 27.44 (6), $p < .001$), which indicates the pattern of governance varies across the three structures. The standardized residuals identify individual cells that contribute to the significant effect (absolute numbers greater than two). To identify the specific variables that contribute to the significant effect, six *Chi Square* analyses were performed on the six combinations of 2x2 tables generated from these data.

Table 3. Cross tabulation of formal board, advisory board and family meetings.

Family Meeting				*Formal Board* *No*	*Formal Board* *Yes*	***Total***
No	Advisory Board	*No*	Count Adjusted Residual	58 -.1	68 .1	126 -
		Yes	Count Adjusted Residual	14 .1	16 -.1	30 -
	Total		Count	72	84	156
Yes	Advisory Board	*No*	Count Adjusted Residual	15 -2.4	34 2.4	49
		Yes	Count Adjusted Residual	16 2.4	11 -2.4	27
	Total		Count	31	45	76

Comparing the frequency of Formal Boards by Advisory Boards separately for those that held Family Meetings and those that did not indicated a significant effect only for organizations that held family meetings (*Chi Square* (1) = 5.92, $p < .02$). The frequency of formal boards was related to the frequency of advisory boards, but only if they also held family meetings. Having a formal board meant it was less likely that the business would have an advisory board if it also held family meetings. Although it might appear that the key issue is that few organizations had all three (formal, advisory, and family meetings), subsequent analyses do not support this interpretation.

The two 2x2 *Chi Square* analyses compared frequency of formal boards and family meetings separately for those that had an informal board and those that did not, and those comparisons produced no significant effects. The final two *Chi Square* analyses compared the joint frequency of advisory boards and family meetings separately for existence of a formal board or not. The results indicated that there were no differences in the two x two table for existence of a formal board (in this case, the frequency of having all three governance structures was not significantly different from the other frequencies when organizations had a formal board). If there was no formal board, it was much more likely that organizations with an advisory board also held family meetings. Apparently having both an advisory board and family meetings performs some of the functions of a formal board. Given that 83 percent of the members of formal boards are family members, that result is not surprising.

Governance techniques related to planning and organizational performance

The four planning variables (existence of succession plan, estate plan, family mission, and business mission) were combined into a single variable of Planning Intensity with a maximum score of four and a minimum of zero (*Mean* = 1.72 and *Standard Deviation* = 1.08). Table 4 displays the correlations between governance and Planning Intensity, Revenue and Generations. The correlations show that having a formal board of directors was related to Revenue and Generations, and all three governance structures were related to Planning Intensity.

Table 4. Correlations between governance structures, planning and performance.

Governance	*Planning Intensity*	*Revenue*	*Generations*
Board of Directors	.125*	.123*	.273***
Board of Advisors	.258***	.065	.056
Family Meeting	.250***	.100	-.076

*** $p < .001$ ** $p < .01$ * $p < .05$

The theoretical framework presented in Figure 1 was tested with regression analyses. For each performance measure (revenue and generations), two regressions were performed, one to test the direct effects of the three governance structures and one to test the indirect effects with a direct effect of Planning Intensity. (A final regression for each performance measure tested the governance effects after the effect of age of the business was removed. The results of these analyses reinforced the results of the first two regression analyses, hence they are not reported.)

Figure 3 summarizes the results of the regression analyses. The first number on each line is the *Beta Weight* from the first regression analysis (direct effects of governance without other variables removed). For Revenue and Generations, the number in parentheses is the *Beta Weight* from the second regression with the effect of Planning Intensity removed. The numbers below the last line in each combination are the multiple correlations for each regression (direct and with Planning Intensity included). If governance has a direct impact on revenue and generation without Planning Intensity being an intervening variable, then the two *Beta Weights* on each line should be roughly the same.

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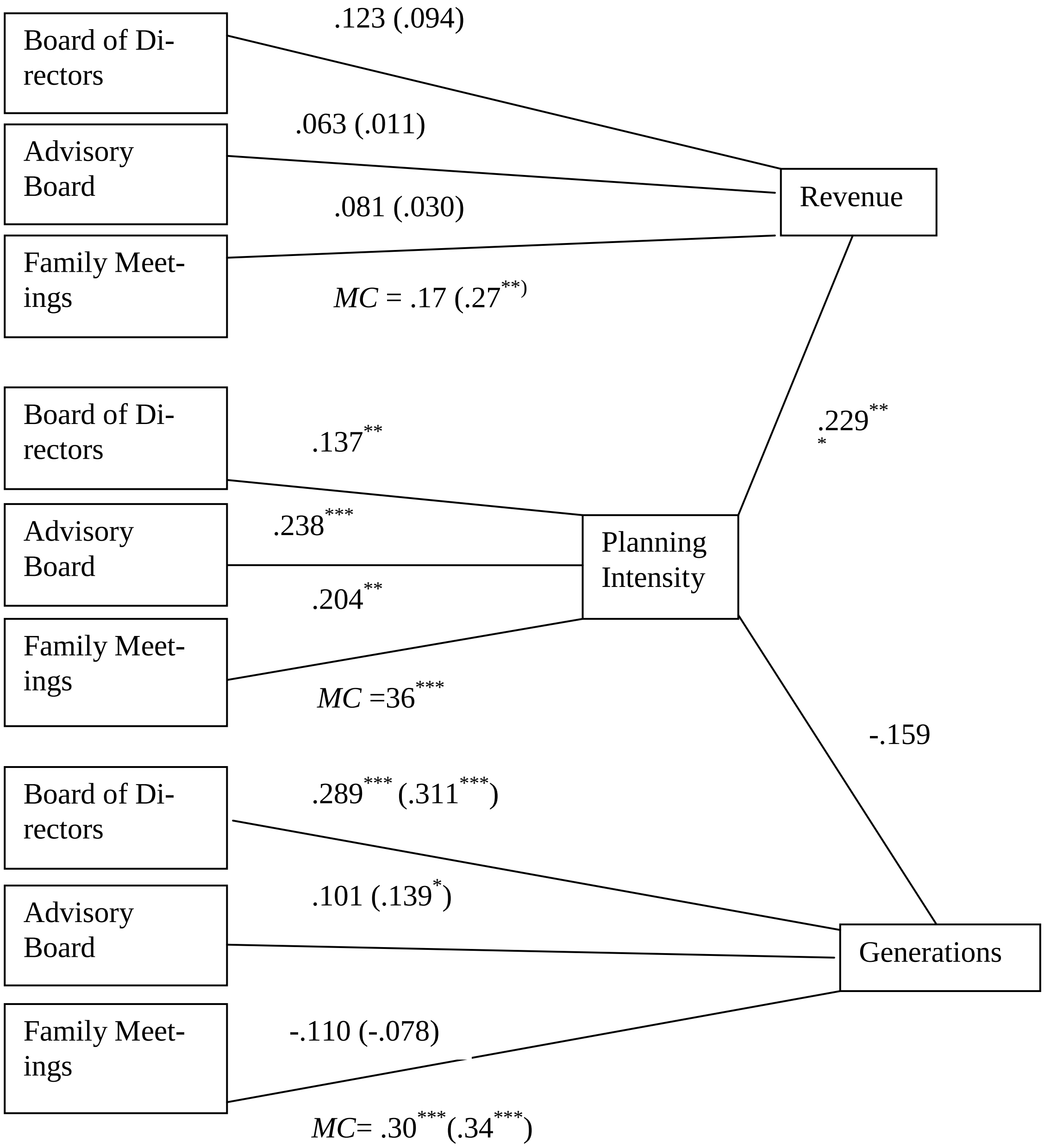

*** $p < .001$ ** $p < .01$ * $p < .05$

Figure 3. *Beta Weights*[10] for Governance Structures and Multiple Correlations[11] with Outcomes.

As the figure displays, all of the governance structures were positively related to Planning Intensity, with a multiple correlation of .36. Revenue had a positive correlation with formal board, but that effect disappeared after Planning Intensity was added to the equation. Planning Intensity was consistently related to revenue even when age

[10] *Beta weights* outside parentheses are from regression without Planning Intensity as a predictor, and *Beta weights* inside parentheses are from regression with Planning Intensity as a predictor.
[11] *MC* = multiple correlation

of the company is considered. Although governance structures are not directly related to revenue, they are positively related to planning, which is consistently and directly related to revenue, hence governance has an indirect effect on revenue.

The results for generation that currently runs the business were dramatically different. Having a formal board showed a direct and consistent relationship with successfully transitioning to a later generation, while planning had no relationship. When Planning Intensity was included as a predictor, informal boards had a significant *Beta Weight*, hence having both a formal board and an informal advisory board were related to the business being run by a later generation.

Table 5. Summary of questions asked and answers.

Question	***Result***
What are the most frequently used governance techniques?	Formal Board (55 percent) Family Meeting (33 percent) Informal Board (25 percent)
What are the most frequently used combinations of governance techniques?	Formal Board alone was most frequent (29 percent). No governance was second (25 percent). Formal board and family meetings was third (15 percent).
Are governance techniques related to planning and performance?	Governance structures were directly related to planning. Governance structures were indirectly related to higher revenue and directly related to later generations leading the business.

Implications

Family businesses often do not have a formal governance structure for either the business or the family; however, those that do have one engage in more planning activities, which is related to revenue. Governance structures are related to successfully transitioning to later generations, even when the effect of age of the company is removed. Family meetings showed a relationship only with planning activities, but not to any of the performance measures, directly or indirectly.

DISCUSSION

In family businesses, governance systems are necessary to manage and govern the complex combination of family and business interests. Given the difficulty of governing the complex overlapping of family and business systems, it's not surprising to find a great deal of variance in the forms of governance structures that have evolved over time in family businesses. This paper focused on identifying those forms and examining the relationship between the forms and desired outcomes relating to revenue generation, organizational continuity over time, and planning activities in family businesses.

The research found 75 percent of governance systems in family businesses are comprised of one or more of the following: boards of directors, informal advisory boards, and/or family meetings (sometimes more formally referred to as family councils). The most common of these was having a board of directors (55 percent), followed by family meetings (35 percent) and informal advisory boards (17 percent).

In examining the combinations of types of units in governance systems, widespread variability is found with each of the seven possible combinations having at least some family businesses reporting they used that combination. The most frequent combination was a board of directors, no advisory board and no family meetings. This type of system was found in only 29 percent of family businesses. Fifteen percent of the sample combined a board of directors with family meetings, and all other possible combinations were utilized in seven percent or less of family businesses. The conclusion is that there is no dominant governance structure for family businesses hence determining which system is related to the two performance measures may help identify the governance structure that should be chosen.

The adopted framework proposed both direct and indirect effects of each of the three governance structures. In examining the relationships of forms of governance structures to planning and organizational performance, a number of interesting results were found that have implications for governance systems in family businesses. The two key findings were that family businesses that had some form of governance structure had a higher level of planning activity, and that effort was positively related to higher levels of revenue generation. The effect on revenue was indirect for both types of boards but both direct and indirect for Family Meetings. As proposed by Habbershon and Astrachan (1997) family meetings can be focused on establishing goals for the family which is engaging in planning. It appears that the activities of the two types of boards do not include planning hence the indirect effect through the planning process. The boards may encourage the family business to engage in planning but the board itself does not do so. Family meetings may well help spur planning for the business as well as its own planning having an impact on revenues.

Astrachan and Kolenko (1994) found that there was a direct effect of some governance on longevity but they couldn't determine which of the governance systems was related to longevity. The results in our study showed that successfully transitioning family businesses to later generations was related directly to having a board of directors or an advisory board. Holding family meetings had neither a direct nor indirect effect on transitioning to later generations. This may well be due to the focus of family meetings on internal family issues and not on succession plans which are more likely within the domain of the business governance system.

Further research focusing on the activities of business governance (boards of directors and advisory boards), the focus of the meetings and who participates will help us understand what contributes to successful transitions to subsequent generations. Some examination of family meeting activities may also show why they produce an indirect relationship to revenue

The key conclusion is that there are key benefits to having some form of structured governance system in a family business, although which combination is best remains open. The optimal form of governance system is probably somewhat dependent on the goals of a specific family business and requires further investigation relating forms of governance to more specific goals. Further, there is the need for research to identify other factors (for example, respective roles of family members other than the owner/manager, the role of outside advisors and board members, the specific operating processes of the individual units making up the governance systems) that might further impact the alternative governance structures on the achievement of specific family and business goals.

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