International Studies in Entrepreneurship

Alan L. Carsrud
Malin Brännback *Editors*

Understanding Family Businesses

Undiscovered Approaches, Unique Perspectives, and Neglected Topics

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International Studies in Entrepreneurship

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Editors

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Undiscovered Approaches, Unique Perspectives, and Neglected Topics

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Chapter 1
Where Have We Been and Where We Should Be Going in Family Business Research

Alan L. Carsrud and Malin Brännback

1.1 Introduction

Our interest in family businesses derives from not only participation in family firms but also by what we have observed over the years. It is also heavily influenced by our passion for understanding entrepreneurs (Carsrud and Brännback 2009) and the subsequent firms they create which often start out as family ventures. While what we have observed is often positive, the horror tales are frequent and legend. It seems that the structure inherent in a successful business is often in a "degree of tension" with those which characterize a harmonious family. It is this "conflict" that is at the heart of the uniqueness of family business. This book is an attempt to address unique issues that arise from this tension between the family system and the business system.

While families are often dominated by emotional issues, they also provide security, nurturance, status, and power for their members. Family firms are sources for meeting some of these needs. Firms provide a source for personal identification for individuals in the family, not just the founding entrepreneur. Family members judge the family's value by the degree to which these emotional needs are met, or not met. Family firms sometimes detract from that process, and at other times can be sources for such need satisfaction.

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1.2 Defining Family Firms

Perhaps the place to start a research volume on family firms is to define what a family firm is. To understand a family business one must study the family, its individual members, as well as key nonfamily individuals. This complex dynamic is impacted by the external environment in which the firm is located. These all must be considered as separate systems as well as interrelated parts of larger systems inside and outside of the business and the family. For example, this awareness led to discussions on how one then defines a family (Carsrud 2006) when it comes to perceptions of justice and fairness in the family firm. This is also an example of an important issue that has plagued research in family business: the lack of both operational definitions of family firms and theoretical definitions that would be inclusive definitions of family firms as they exist in modern society. Attempts by family business researchers to measure "familiness" is but one example of trying to simplify a complex process (Klein et al. 2005; Lumpkin et al. 2008).

Clearly, a variety of definitions of "family business" exist which pull from anthropological and sociological traditions (Rogers et al. 1996). For many researchers, and those providing services to family firms, a traditional definition would include a for-profit organization in which "two or more extended family members influence the direction of the business through the exercise of kinship ties, management roles, or ownership rights" (Davis and Tagiuri 1989). This particular definition clearly reflects the traditional three system model of family, management, and ownership.

However, this definition may not include nontraditional families like divorced couples running a firm, gay couples starting a business, or even social ventures begun by a family. Some of the chapters in this book look at some of the less traditional views of families. In this volume, there are both implicit and explicit definitions of what is "family" and, what constitutes "a family firm." Many of these are dependent on the home disciplines of those authors.

One of the few approaches that have tied different disciplines together in the field of family business research has been systems theory. This use is considered a part of the behavior approach to General Systems Theory (GST) (von Bertalanffy 1968).

1.3 Systems Theory in Family Firms

In GST, principles gained from one field are applied to others and has been a useful model in looking at living systems. With this background, family systems and family business systems can be more readily understood and the interrelationships better explained. The widely used three interlocking rings of family, management, and ownership that are a part of most teaching and consulting in family business are examples of this interaction of systems. Systems theory is a holistic and interdisciplinary approach that acknowledges that nothing is determined by a single factor. That is, understanding complex concepts within the family firm one cannot be

limited to either an individual or a systems viewpoint, but must integrate both. This approach, while appealing, is difficult for many researchers to adopt given their strong disciplinary training and professional affiliations. However, understanding the complexity of the systems involved in a family business is critical to sustaining that venture (Carsrud and Brännback 2010).

1.3.1 Characteristics of a Family Business System

Building on the systems literature one could define a family business system as a unit of interrelated and interdependent persons who are united into a recognizable unit, the family business, and hopefully are in some state of balance. One could define a family business system as a unit with a feedback structure and, therefore, capable of processing information. People within such a system would be expected to satisfy their needs within that social system via cooperatively joining to achieve common goals. Family firms would be expected to use an organized set of practices to regulate behavior; these may be "family norms" or "family values" which are discussed in several chapters in this book. An individual within a family business would occupy various positions in the family, ownership, and business systems. They would have defined roles in each system. As such an individual is shaped by each system and they in turn can change each of the other systems.

Family business systems are made up of (1) parts, (2) attributes, (3) organization, (4) goals, (5) communication, (6) boundaries, (7) environments, and (8) evolutionary processes. In the case of a family in business, the *parts* are the people in the system who are interdependent, be they family members or nonfamily members. The concept of *goals* is closely tied to motivation in entrepreneurs whose firms often become family firms (Carsrud et al. 2009). *Goals* are the reasons any system exists. For example, *goals* in a family would include caring for children, while in a firm it might be earning profit. *Communication* is the exchange of information and is essential for family and business systems to exist. In several chapters in this book, examples are given and research is discussed on the role communication plays in dealing with "conflict" and "tension" in the family firm.

Whenever there is a system, there exists a *boundary* that separates system from its environment and other systems. *Boundaries* can include a feeling as being a part of a group while others are not and thus on the other side of the *boundary*. When using the concept of *environment* in the systems literature, it is that which exists outside the particular system. For example, a family firm exists within an industry which is a part of the environment. Finally, there should be exchanges of information for the family business system to be useful. This leads to the concept of *evolutionary process* which allows the family business system and its environment to continually adjust to changes. In many of the chapters in this book, it becomes clear that firms fail because they have not adapted to the change in their environments and social systems.

1.3.2 Boundaries in the Family Firm

Most firms are oriented toward revenues, profits, efficiency, and public images. However, these may not be the only goals a family in business may desire. Others may include providing incomes and jobs to family members, maintaining cultural traditions, and providing income to pursue other activities like political positions. This does not always mean the most capable are chosen as successors to lead the family firm despite well-known strategies for dealing with succession in economic units. While families are expected to be concerned about the security, care, and development of family members with leadership normally based on seniority and gender, this is not always the case. Following up on this, one chapter in this book addresses leadership as one of the neglected topics of family business research.

The practical application of *boundaries* is in the recommended separation of business issues from family matters while others have argued that the interaction between family and business system must be considered when making boundaries. There has been increasing recognition given to the third system, ownership, and how owners govern the process. In many of the chapters in this book, it will be obvious that the boundaries between these social systems are anything but impermeable.

1.3.3 The Role of the Individual

If the individual is key to the ownership, family, and business systems, then more research is required as to how this occurs and any reciprocal impact of these three systems on each other and on the individual. For example, if entrepreneurs with high need for personal power are less likely to plan for succession than those with high needs for social power; does this change with time? Does this occur once the firm reaches a certain age or goes public? Some entrepreneurs may have varying commitments to their families and their businesses. Some put the family first, others the business, while still others attempted to balance their commitments to both. This raises the following questions: What characteristics of the family, individual, and firm impacted these goal choices? While it is readily apparent that family firms are dependent upon one or a few key individuals, how that impact changes over time has yet to be explored? These kinds of issues are addressed in several of the chapters in this book.

Often disagreements occur because of role conflicts, which are discussed in several other chapters in this book. An example of this conflict is the parent's difficulty in recognizing that the "child" could be a competent adult capable of greater responsibility. This could also be seen in the conflict of intentions where the parent "intends" for the child to enter the business and the child "intends" to follow a different career path. This kind of conflict is seen in several chapters in this book. Clearly, families often do not forget the good and bad characteristics of their children even if they no longer have these aspects. However, as some chapters in this book demonstrate, there are "bad seeds" in families that are often brought into the

business with the hope that the firm might resolve their problem behavior, often to the detriment of the firm. Current family disputes can also be continued into the business system rather than leaving the disagreements in the family setting. These are discussed in a chapter dealing with divorce and power dynamics. This discussion raises questions like: Can "bad" behavior by children translate to "bad" behavior in the firm by those same individuals as adults? What role does the family firm have in reinforcing such bad behavior? Does parental "spoiling" of children lead to ineffective adults in the family firm? The reader will see these themes frequently in various chapters in this book, but viewed from different perspectives.

1.4 Succession

Much of the early family business literature is related to the succession process and the difficulty of leadership in the family firm to relinquish authority (Levinson 1978; Danco 1982; Beckhard and Dyer 1991; Rogers et al. 1996). Most of this research has suggested a variety of factors which contribute to this reluctance to retire by the senior family member and how succession can be conceptualized. Leadership in the family is addressed in a chapter in this book as a topic which still is in need of research beyond the issue of leadership succession.

Even if the leader of a family firm wants to retire, succession depends on an adequately prepared successor if the firm is to survive. Much earlier studies focused on the eldest male as the heir apparent to the senior family member in the business. More recently attention has been given to daughters, younger sons, and in-laws. However, the discussion on in-laws in the family firm has still to be adequately addressed as is noted in another chapter in this book. The following are the most often asked questions as noted by early researchers and consultants: (1) Who will own the business? (2) Who will be the CEO? (3) How will other assets be divided? (4) When will transfer of ownership occur? (5) How are taxes minimized? (6) How are related issues decided? To answer these questions requires open and effective communications within and between the various systems involved as well as an understanding of complex issues of finance and wealth management. These are topics that have largely been ignored and are addressed by one chapter in this book.

Researchers have found that families in business have poor communication. Resolution of the issues often requires the services of professionals from supporting systems such as attorneys, accountants, insurance experts, and family counselors. Meetings mediated by professionals are frequently suggested to open communications between family members. Yet as one chapter in this book notes, we really have little research to support this intervention and the use of the related Family Council. Such meetings have been seen as important not only at the time of succession but also at other times of major transition in the family firm. While we believe family members need to share their individual perceptions of the goals and mission of the family business, much research on this still needs to be done.

1.5 Beyond Systems Theory and Succession

Building on the above discussion of the research history of family business research, we have assembled, in this volume, a group of authors who were asked to explore a variety of research topics or approaches that have either been ignored or use underutilized methods to study family-owned and managed business. Most chapters include a case, or cases, to illustrate these issues. We believe these "cases" best illustrate issues that are then more fully explored from a theoretical approach within each chapter.

To practitioners and academics interested in the study of family business, several challenges emerge that are unique to the environment of the family-owned and managed business. Key among these are that families face special challenges of simultaneously operating their firms while dealing with ever-changing familial relationships that often impact the strategic and financial choices they enact. To survive and grow effectively in today's changing economies, the family-owned and operated firm must meet their unique challenges with informational resources that are often not cognizant of family firm issues and frequently disparaging of family firms and their value. We hope this volume will help stimulate research into some of these neglected areas of critical importance to family firms. In addition, family firm members must develop management skills not often required in public-owned firms and frequently not taught in schools of business administration – like how to manage your child who is also one of your employees.

To address this vacuum of knowledge on family and closely held businesses was part of the motivation behind this volume. All of the chapters in this book either directly or indirectly note that in closely held firms strategies are often confounded by conflicting intentions and agendas associated with owner's personal and very personal family concerns.

1.6 Interdisciplinary Approaches

In this book, we have attempted to provide new approaches to look at neglected topics in family firms to better understand the complexity of what a family firm is and what holds them together. We believe this will provide insights into the conflicting demands that influence decisions about managing both the family and the firm. By using research from a wide range of disciplines, we try to provide some unique perspective on understudied issues. What all the chapters in this book have in common is belief in the complexity of factors that influence decisions in the family firm.

1.7 Conclusions

This volume contains chapters which start with an overview of the family business, through issues of conflict and tension to larger issues of governance, strategy, and wealth management and finally ending with a new theory of entrepreneurial behavior in family firms.

The chapters of this book were chosen specifically to provide an understanding of family business in terms of unique perspectives, neglected topics, and undiscovered approaches to understanding family firms. Inherent in all of these chapters is the interaction of the "individual," the "family," and the "firm." They were chosen in order to look more broadly at how family concerns interact with strategic issues to craft characteristic responses to environmental challenges and personal goals of the firm owner and family members. The very minute that a son, daughter, husband, wife, or distant cousin joins the owner/manager in the firm, the level and type of issue complexity rises geometrically.

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Chapter 2
Family Business: A Global Perspective from the Panel Study of Entrepreneurial Dynamics and the Global Entrepreneurship Monitor

Charles H. Matthews, Diana Hechavarria, and Mark T. Schenkel

2.1 Introduction

This chapter directly examines the relevant literature for addressing several fundamental issues associated with family business and entrepreneurship. While a substantive literature has evolved over time with regard to family business management and succession issues, relatively less is understood about the vital role of family business in nascent entrepreneurial activity. Without question, family business enjoys a long and critical role in the global ascendency of the industrial age (Bird et al. 2002). Relatively little is understood, however, about underlying critical issues associated with family influence in nascent entrepreneurial activity. For example, family business research has long been focused on the many succession issues associated with the founding or subsequent generations of family members with respect to ownership and management (Dyer and Handler 1994). Only recently, have we begun to shift our attention to the more salient issues surrounding the venture creation process. For example, Chang et al. (2009) use a resource-based view examine social capital and network theories that influence the venture creation process.

Given this lack of expansive understanding of the role of family business in nascent entrepreneurial activity, this chapter directly examines a number of variables of interest that inform the process. In essence, we argue that family and business are indeed "inextricably intertwined" and adopt a perspective of family embeddedness that seeks to further inform the nascent entrepreneurial activity

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(Aldrich and Cliff 2003). For example, with regard to the Panel Study of Entrepreneurial Dynamics (PSED I), 20 items included in the initial telephone survey represent the family background variables. These 20 items are organized into the conceptual categories of "primary family role models," "extended family and other role models," and "attitudes toward and encouragement by role models." The structure of the items on family background begins with assessing whether or not the respondent's mother of father, alone or together, ever worked for themselves or ran their own business. Specific questions probed for more information about the number of business owned by the father or mother, the size of those businesses, and the respondent's work history with those businesses.

In addition, this chapter also explores family business background variables in the PSED II study. Specifically, we examine issues around and the role played within the family context such as the importance of family life, family tradition, influence of parental background, work experience in family businesses, and family financial support for nascent entrepreneurial activity. Ten items in the PSED II directly assess the family background influence variables across three dimensions. Four items examine the aspect of family role models; two items assess family financial support (across two time periods); and four items look at family life and legacy.

Finally, this chapter examines family business variables included in the Global Entrepreneurship Monitor (GEM) studies. As noted above, research suggests that there is a higher prevalence of entrepreneurial activity among individuals whose parents have been self-employed or running their own businesses. The GEM data provides a unique view of the family business phenomena from a global perspective. This includes, but is not limited to, the use of advisors in general and family and friends in particular in global entrepreneurial start-up activity, as well as providing funding to family members and the relationship of the person providing the funding.

2.2 A Familial Perspective on Nascent Entrepreneurial Activity

Building on the literature and theoretical development outlined above, it follows that a familial perspective on nascent entrepreneurial activity merits further exploration. Overall, we will outline five key areas including (1) family life; (2) family tradition; (3) parental background; (4) work experience in family business; and (5) family financial support. Preliminary data analysis of these and other key variables from the PSED I and II as well as GEM are presented.

2.2.1 Family Life

Whereas scholars have intuitively speculated that family life is indeed an important dimension in the new venture creation process, they have also observed that it is a neglected dimension in terms of systematic inquiry (Aldrich and Cliff 2003;

Dyer and Handler 1994; Ruef et al. 2003; Steier 2007). For example, Steier (2007) observes that despite studies suggesting that much of the economic activity around the world exhibits a family dimension (e.g., Astrachan and Shanker 2003; Morck and Steier 2005), the public narratives surrounding the new venture creation process tend to emphasize individual action while ignoring collective action. Through examples like Disney and WalMart, he shows that such a bias toward public "official" organizational narratives tends to overshadow important familial subnarratives. As a result, the importance and role of family life to the development of such successful organizations has been marginalized from the discourse surrounding the new venture creation process. Such evidence also reflects the observation that research has focused less on generating a strong sense of family embeddedness as an influential dimension (Aldrich and Cliff 2003), suggesting further inquiry into the importance of family life, both as a potentially conscious and subconscious influence (Matthews et al. 2009), is critical toward developing a stronger sense of the roles family life plays as a dimension in the new venture creation process.

2.2.2 Family Tradition

One of the most interesting aspects of family business centers around various motivations for starting and/or continuing family businesses. Over the years, much speculation and a number of writers have examined the relationship between individual's motivation and various perceptions of the environment with regard to supportive environments, including family and external market conditions in general, and followers of family tradition and role models in particular (Dubini 1989). Of course, it is much more difficult to capture this phenomenon prospectively in the case of nascent entrepreneurial activity. Nonetheless, it remains a central factor in enhancing our understanding of nascent entrepreneurial activity especially with regard to the on-going relationship or kinship ties to family tradition.

2.2.3 Parental Background

A third area that informs our understanding of nascent entrepreneurial family firms is the role of family background in business as an influencing factor in the start-up process. Hundley (2006) in his empirical study suggests that men with self-employed fathers and higher parental incomes are more likely to be self-employed, the impact of paternal self-employment is leveraged by higher family income, and self-employment is more likely when the father worked in an occupation with task requirements similar to those of an independent business. In their analysis of why people get involved in the creation of new ventures, White et al. (2007) suggest the social context of the entrepreneur, specifically their family business background, is indeed associated with new venture creation. Overall, this suggests that role models,

in particular parental or family role models, as indirect influencers on nascent entrepreneurial career preferences or expectations merit continued analysis (e.g., Katz 1992; Krueger 1993; Matthews and Moser 1995, 1996).

2.2.4 Work Experience in Family Business

A fourth area that is of interest in furthering our understanding of the role family business plays in nascent entrepreneurial activity is work experience in the family business. One of the key concerns in perpetuating the family business is the interest of subsequent generations in taking over the family business, succeeding in either ownership or management or both of the family business. Of course, there is also paradox or counterargument that exposure to entrepreneurial and family business via work experience in the family business could initiate interest in entrepreneurial vs. succession activity (e.g., Johannisson 2011).

2.2.5 Family and Nonfamily Financial Support in Nascent Entrepreneurial Activity

A fifth area of interest that has the potential to inform our understanding of the role family business plays in nascent entrepreneurial activity is family and nonfamily financial support. Because financial capital is both a necessary and appropriable resource, one of the key concerns in the new venture creation process revolves around the sources and structure of start-up capital. Both anecdotal observation and empirical studies suggest that nascent entrepreneurs mobilize a mix of both family and nonfamily financial resources (e.g., Aldrich and Waldinger 1990; Berger and Udell 1998; Steier and Greenwood 2000). Though this mounting evidence suggests that family does in fact play an important role in the new venture creation process, Aldrich and Cliff (2003) suggest that further consideration is needed to generate a richer understanding of embeddedness influences. These authors conclude such consideration is particularly important given significant socio-historical changes observed in the family system at the beginning of the twenty-first century.

2.3 Panel Study of Entrepreneurial Dynamics I and II and Global Entrepreneurship Monitor

Two of the most salient and dynamic data sets focused on the exploration of nascent entrepreneurial activity have been the PSED and the GEM. The PSED was initiated in 1994, as the Entrepreneurship Research Consortium (ERC) under the leadership of Paul Reynolds, Nancy Carter, and Bill Gartner. The ERC evolved into the PSED and involved the collaboration of over 100 researchers from 34 universities, each

school donating $20,000 to prime the research pump. A random screening of more than 64,000 American adults yielded 830 nascent entrepreneurs (those who were alone or with others in the process of starting a business) and another 431 non-entrepreneurs. PSED I included both a 60-min telephone interview and mail survey, and once a year for 3 years a follow-up survey. The PSED I began gathering the data in 1998 through 2003. Additional grants from the National Science Foundation and the Kauffman Foundation for additional data collection brought the total funding for this unique research to approximately $1.3 million. In 2005, PSED II, utilizing updated procedures and questions, was launched under the auspices of the Kauffman Foundation. Follow-up data collection for PSED II continued through 2010, and yielded 1,214. For more detailed information on the PSED I and II, please see *Handbook of Entrepreneurial Dynamics: The Process of Business Creation* (Gartner et al. 2004) and *New Firm Creation in the United States: Initial Explorations with the PSED II Data Set* (Reynolds and Curtin 2009).

The GEM is the largest survey-based study of entrepreneurship in the world. GEM was started in 1997, as a joint initiative between Babson College in the USA and The London Business School in the UK. Researchers in these institutions were concerned to improve understanding of the relationship(s) between entrepreneurial activity and national economic growth. To this end, the team designed a cross-national, longitudinal research program with the intention of providing annual assessments of the entrepreneurial sector for a range of countries. The first data collection cycle took place in 1999, and produced data for ten countries. In 2010, GEM has grown to conducting research in 59 countries.

During the course of its history since 1999, over 60 countries have been involved with the research. Every year, a national team is responsible for conducting a survey of at least 2,000 people within its adult population. The *Adult Population Survey* is a survey of attitudes toward entrepreneurship in the general population but it also asks people whether or not they are engaged in start-up activity or own or run a business. The individual national team surveys are all collected in exactly the same way and at exactly the same time of year to ensure the quality of the data.

Data for the GEM is publicly released via the GEM website (http://www.gemconstrium.org) and available at the Inter-University Consortium for Political and Social Science Research (http://www.icpsr.umich.edu). For more information about GEM research and methods, please see Reynolds et al. (2005).

Table 2.1 shows item number and description of item questions from PSED I and II. Table 2.2 shows item id, years of data collection, question description, and survey label.

2.3.1 Selected Results from the Panel Study of Entrepreneurial Dynamics

Pooling data from PSED I and PSED II ($N = 2{,}044$), preliminary analysis reveals that about 30% of all nascent business initiatives are family businesses. That is, they are founded by either a spousal pair team or a team controlled by at least 50% kinship ties. In examining a familial perspective on nascent entrepreneurial start-ups,

Table 2.1 Survey items form Panel Study of Entrepreneurial Dynamics (PSED) I and II

Item number		Description of item question
PSED I	PSED II	*Family history and role model items*
Q361	AZ6	Was your mother born in the U.S.?
Q360	AZ7	Was your father born in the U.S.?
Q362	AZ8	Did your parents ever work for themselves or run their own businesses, alone or together?
Q375	AZ9	Did you ever work full time or part time for your parents' business?
QB1h	AP11	Many of your relatives have started new businesses
Q379		Have your family, relatives, or other close friends been encouraging you to, or discouraging you from, starting a business of your own?
Q379a		How would you describe the ENCOURAGEMENT you received from your family, relatives or other close friends, would you consider it very weak, weak, neither weak nor strong, strong, or very strong?
Q379c		How would you describe the DISCOURAGEMENT you have received from family, relatives or other close friends. Would you say it is very weak, weak, neither weak nor strong, strong, or very strong?
		Family financial support
	AQ5	What is the dollar amount provided that came from personal loans received by (you/[NAME]) from (your/their) family members and relatives (before the business was registered as a [C1])?
	AR12	(What is the dollar amount of the debts that…) …are in personal loans from spouses, family members, or other kin of the start-up team of the new business(after it was registered as a [C1 LEGAL ENTITY])
R773		How about FAMILY MEMBERS AND RELATIVES of yours (OR the start-up team) – how much money have they PUT INTO the business, expecting to share ownership and profits?
R773a		How much money have FAMILY MEMBERS AND RELATIVES of yours (OR the start-up team) LOANED the business – money they expect to get back, with or without interest?
S773b		How much have FAMILY MEMBERS AND RELATIVES raised to invest in the new business loans or ownership – by borrowing against household assets, like a mortgage on their home?
Q271		Have you asked your friends and family for funding for this new firm?
Q271a		Was the answer yes or no (when you asked your friends and family for funding for this new firm), or is the request still pending?
Q272		How much funding do you expect, in total, from your family and friends?
Q273		Have the family and friends of others on the start-up team been asked to provide funding for this new firm?
Q274		How much funding do you expect, in total, from the family and friends of others on the start-up team?

Table 2.2 Survey items from the Global Entrepreneurship Monitor (GEM)

Item	Year(s)	Question	Label
SUFFUOWN	2002–2003	Do you and one or more family members, including those by blood, marriage, or adoption, together own and control more than 50% of the business?	Start-up: Expected family own 50% within 5 years
SUFNWOWN	2002–2003	Was this new business developed by or separated from an existing business controlled with your family?	Start-up: Family now own more than 50%
SUFAMSPL	2003	Was this new business developed by or separated from an existing business controlled within your family?	Start-up: New bus split from family bus
SUMONEY2	2001; 2003	Have you received or do you expect to receive money – loans or ownership investments – from any of the following to start this business? (other relatives, kin, or blood relations)	Start-up money: From close family member sibling
SUMONFAM	1998–2003	Continuous respondent self-report of sum of equity	Start-up money: Family investor got Equity – US $ conversion
SUMONFUS	1998–2003	Continuous respondent self-report of sum of investment	Start-up money: Family money invested – US $ conversion
OMFFUOWN	2002–2003	Do you expect any other relatives or family members, including by blood, marriage, or adoption, to share in owning more than 50% of the business in the next 5 years?	Owner–manager: Family will own 50% in 5 years
OMFNWOWN	2002–2003	Do you and one or more family members, including by blood, marriage, or adoption, together own and control more than 50% of the business?	Owner-manager: Family now own more than 50%
OMFAMSPL	2003	Was this new business developed by or separated from an existing business controlled within your family?	Owner-manager: New bus split from family bus
BAREL	2000–2003	What was your relationship with the person that received your most recent personal investment	Bus angel: Relation to investee
BAFAMOWN	2002–2003	You say you provided financial support to a family member or relative starting a new business. In return for this investment, did you receive a share in ownership of the business?	Bus angel: Equity four invest in family bus
BAFAMSPL	2002–2003	Was this new business developed by or separated from an existing business controlled within your family?	Bus angel: New bus split from family bus

with regard to personal motivations relating to family, nascent entrepreneurs rate greater flexibility in life the highest, followed by building a business children can inherit thereby continuing a family tradition. About 52% of all respondents reported that their parents owned a business, and about 48% of respondents worked in their family's business either part- or full-time (see Table 2.3).

Analyzing financing data among PSED II respondents, we also find considerable information on start-up funding. PSED II is utilized for this analysis because it can be differentiated between funding received before the start-up is registered as a legal entity and after the start-up is registered as a legal entity. We analyze data prior to legal registration for this analysis because of this added specificity.

The average for funds loaned by family before the nascent venture is registered as a legal entity is estimated to be $3,576.72, with a standard deviation of $44,418.75. Of all funding sources before legal registration (i.e., family, friends, employees, work colleagues, credit cards, personal loans, second mortgages, car loans), about 8% (including outliers) and about 30% (excluding outliers)[1] are contributed by family members to the nascent start-up before the nascent venture is registered as a legal entity. Overall, the traditional friends, family, and founders, including credit cards, account for 63% of the funding sources for this sample, with personal funds accounting for nearly 48.4%.

Furthermore, the data highlight considerable variance in the amount of funding received by the nascent venture from family members. For this sample, the sum of all funds contributed by family to start-ups is about $4.3 million. However, when asked about the largest investment a family member made, some nascent ventures reported receiving as much as $1.4 million in start-up loans from family, while others as little as $12. Of the total 1,214 nascent ventures used in this analysis, 1,016 (83.7%) report receiving no funding from family sources, while 172 (14.2%) report receiving family funding (26 nascent ventures did not reply). In sum, these data appear to confirm the findings of earlier work (e.g., Aldrich and Ruef 2006) suggesting that although meaningful (i.e., about 14.2% micro financing contributions are received from a family member during the earliest stages of new venture creation), the ability and motivational influences strong relational ties with family members have on nascent entrepreneurs does not *necessarily* translate into financial support.

With regard to the total dollar amounts, when asked, "What is the dollar amount provided that came from personal loans received by (you/[NAME]) from (your/their) family members and relatives before the business was registered?" the amount loaned reported is $4.25 million. When asked, "What is the dollar amount of the debts that are in personal loans from spouses, family members, or other kin of the start-up team of the new business after it was registered?" the amount reported is $69,000. This difference is amplified in part by one venture receiving a $1.4 million loan before the firm was registered. Even without this outlier, however, the amount of funding from family members prior to firm registration is noteworthy. These results are summarized in Table 2.4, with the exception of outliers.

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[1] To minimize impact of outliers, informal sources of funding greater than $52,000 are recoded at the top end. Overall, 90% of cases fall between $12 and 52,000 for all sources of funds.

Table 2.3 Results of selected data from PSED I and II

		Start-up team ownership: Family vs. others[a]	Greater flexibility in life[b]	Continue family tradition[b]	Build business kids can inherit[b]	Parents self-employed or owned business	Nascent entrepreneur worked in parents business[c]
N	Valid	2,044	1,769	1,770	1,765	2,016	1,045
	Missing	0	275	274	279	28	999
Mean		1.8948	3.84	1.70	2.60	0.52	0.6574 No 0.52 PT 0.30 FT 0.18
Median		1.0000	4.00	1.00	2.00	1.00	0.0000
Standard deviation		1.13339	1.221	1.229	1.539	0.500	0.76399
Minimum		1	1	1	1	0	0
Maximum		4	5	5	5	1	2

[a] 1 = sole proprietor, 2 = spousal pair, 3 = family team controlled >50%, 4 = other team.
[b] Response scale prompt: To what extent was that important? 1 = no extent, 2 = a little, 3 = some, 4 = a great extent, 5 = a very great extent.
[c] Responses include: 0 = not worked, 1 = worked part-time, 2 = worked full-time. To calculate 48% worked in parents business, full and part time were merged

Table 2.4 PSED II summary of nascent venture financing sources

Start-up team ownership		Personal funds	Family funds	Friend funds	Credit cards	Personal bank loans	Asset backed funds	Other	Total money by wave A
Sole proprietorships	Mean	$18,585.63	$3,693.83	$1,973.64	$698.32	$8,602.46	$7,696.04	$473.04	$40,654.91
	Median	$1,500.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$2,000.00
	Standard deviation	$203,559.77	$56,140.51	$39,553.64	$5,522.57	$157,794.87	$157,537.97	$11,777.40	$520,987.81
	Minimum	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	Maximum	$5,000,000.00	$1,400,000.00	$1,000,000.00	$100,000.00	$4,000,000.00	$4,000,000.00	$300,000.00	$13,000,000.00
	Sum	$11,783,290.00	$2,397,294.00	$1,286,812.00	$457,397.00	$5,600,200.00	$5,040,905.00	$307,000.00	$26,872,898.00
	N	634	649	652	655	651	655	649	661
	Percent of total sum	43.85	8.92	4.79	1.70	20.84	18.76	1.14	100.00
Spousal pair	Mean	$15,922.69	$1,396.76	$414.64	$735.80	$6,244.70	$689.39	$0.00	$24,536.32
	Median	$3,000.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$4,000.00
	Standard deviation	$50,384.37	$7,803.06	$3,052.56	$4,032.89	$40,487.08	$3,332.37	$0.00	$71,798.91
	Minimum	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	Maximum	$500,000.00	$80,000.00	$30,000.00	$55,000.00	$600,000.00	$24,000.00	$0.00	$760,000.00
	Sum	$4,076,208.00	$365,950.00	$109,050.00	$194,250.00	$1,648,600.00	$182,000.00	$0.00	$6,575,733.00
	N	256	262	263	264	264	264	263	268
	Percent of total sum	61.99	5.57	1.66	2.95	25.07	2.77	0.00	100.00

Family team >50%	Mean	$34,167.93	$4,905.05	$199.09	$893.35	$20,728.23	$5,721.06	$5.38	$65,145.73
	Median	$3,000.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$4,500.00
	Standard deviation	$88,444.44	$20,001.79	$1,331.33	$5,311.21	$103,702.46	$30,559.66	$51.85	$182,135.15
	Minimum	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	Maximum	$500,000.00	$150,000.00	$10,500.00	$50,000.00	$900,000.00	$250,000.00	$500.00	$1,400,000.00
	Sum	$3,143,450.00	$456,170.00	$18,515.00	$83,975.00	$1,948,454.00	$537,780.00	$500.00	$6,188,844.00
	N	92	93	93	94	94	94	93	95
	Percent of total sum	50.79	7.37	0.30	1.36	31.48	8.69	0.01	100.00
Nonfamily team	Mean	$31,674.14	$5,596.39	$2,824.06	$2,477.99	$4,511.41	$12,511.89	$3,474.19	$60,995.81
	Median	$3,000.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$3,100.00
	Standard deviation	$115,232.43	$36,572.87	$33,201.68	$14,093.34	$23,092.32	$133,281.24	$37,472.73	$206,770.61
	Minimum	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	Maximum	$1,300,000.00	$450,000.00	$450,000.00	$160,000.00	$250,000.00	$1,800,000.00	$500,000.00	$2,050,000.00
	Sum	$5,796,367.00	$1,029,735.00	$519,627.00	$455,950.00	$830,100.00	$2,314,700.00	$642,725.00	$11,589,204.00
	N	183	184	184	184	184	185	185	190
	Percent of total sum	50.02	8.89	4.48	3.93	7.16	19.97	5.55	100.00
Total	Mean	$21,286.97	$3,576.72	$1,622.49	$995.47	$8,405.16	$6,740.72	$798.51	$42,196.61
	Median	$2,000.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$3,000.00
	Standard deviation	$160,680.00	$44,418.75	$32,054.43	$7,296.63	$121,965.36	$127,981.45	$17,154.02	$397,768.12
	Minimum	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	Maximum	$5,000,000.00	$1,400,000.00	$1,000,000.00	$160,000.00	$4,000,000.00	$4,000,000.00	$500,000.00	$13,000,000.00
	Sum	$24,799,315.00	$4,249,149.00	$1,934,004.00	$1,191,572.00	$10,027,354.00	$8,075,385.00	$950,225.00	$51,226,679.00
	N	1,165	1,188	1,192	1,197	1,193	1,198	1,190	1,214
	Percent of total sum	48.41	8.29	3.78	2.33	19.57	15.76	1.85	100.00

This raises an interesting possibility. Specifically, it may be that the longer the nascent venture matures while it gestates, the more likely it gains legitimacy in the eyes of stakeholders beyond the entrepreneur's family. As a result, this finding may suggest that nascent entrepreneurs quickly turn their attention toward securing more formal or nonfamily funding sources to replace family funding fairly early on in the stages of the new venture creation process.

2.3.2 Selected Results from the Global Entrepreneurship Monitor

The GEM provides a detailed source of time series data on family businesses internationally. Overall, it allows family business scholars to assess the rates of participation from year to year among various countries in nascent family-owned business, young family-owned businesses, and business angels or affluent individuals who provide capital for a business start-up, usually in exchange for convertible debt or ownership equity.

Data from 1998 to 2005, representing 48 countries and 538,288 respondents, provides some interesting insights into the family business dynamics on the global front. For example, 21% of all who reported nascent start-ups globally believe that their initiative would be family owned within 5 years. Of those currently engaged in start-up initiatives, about 48% report that the family currently owns 50% of the business. About 21% of start-ups globally have split from a family business to spin off a new business. For nascent entrepreneurs who received start-up funding, looking only at family sources of funding, 8% received funds from family, with the average sum invested globally in start-up initiatives by family members is about $24,244 (in U.S. Dollars).

Among young businesses that are currently operational globally, about 23% of firms report that within 5 years they expect to be family owned. Moreover, among those respondents who report an operational young firm, about 56% are currently family controlled. Furthermore, of all respondents who reported an operational firm globally, 21% stated that their business split from a family business.

Finally, among respondents who reported being business angels in the GEM, about 50% claimed to have funded some type of relative (close family member or other relative). Additionally, about 37% of these business angles who funded relatives received equity in the start-up initiative. Finally, of the businesses funded by business angels in the GEM, 29% of these funded firms represented initiatives that split from a family business (see Tables 2.5 and 2.6).

2.4 Discussion and Future Research

Consistent with prior research (Astrachan and Shanker 2003; Morck and Steier 2005; Steier 2007), the findings from the pooled PSED I and II and the GEM samples presented here suggest much of the nascent entrepreneurial economic activity

Table 2.5 Results of selected GEM data

		Start-up: Expect family will own 50% within 5 years	Start-up: Family now own more than 50%	Start-up: New business split from family business	Start-up money: Close family member	Start-up money: Family investor got equity	Start-up: Family money invested (US Dollars)
N	Valid	4,837	2,749	3,738	14,263	460	460
	Missing	533,451	535,539	534,549	524,025	537,828	537,828
Mean		0.41	0.59	0.30	0.14	84,208.79	24,244.71
Median		0.00	0.00	0.00	0.00	1,000.00	525.52
Standard deviation		1.280	1.003	0.919	0.737	435,002.559	143,576.593
Minimum		0	0	0	0	1	0
Maximum		8	8	8	8	5,000,000	3,104,800

		Own-manage: Family will own 50% in 5 years	Own-manage: Family now owns more than 50%	Own-manage: New business split from family business	Business angel: Relation to investee	Business angel: Equity for investing in family business	Business angel: New business split from family business
N	Valid	7,187	4,615	6,642	13,673	1,248	1,260
	Missing	531,101	533,672	531,646	524,615	537,040	537,028
Mean		0.48	0.61	0.27	2.81	0.46	0.40
Median		0.00	1.00	0.00	3.00	0.00	0.00
Standard deviation		1.423	0.786	0.817	1.923	0.938	0.986
Minimum		0	0	0	1	0	0
Maximum		8	8	8	9	8	8

Table 2.6 Summary of the GEM data for financing, ownership, and new ventures

	Start-up: Expect own 50% within 5 years	Start-up: Family now own more than 50%	Start-up: New business split from family business	Start-up: money from close family member	Own-manager: Family will own 50% in 5 years	Own-manager: Family now owns more than 50%	Own-manager: New business split from family business	Business angel: Equity for investment in family business	Business Angel: New split from family business
No	76.7	50.7	78.0	90.9	74.1	43.4	78.7	61.4	69.6
Yes	20.8	47.9	20.9	8.4	22.7	55.9	20.5	37.4	29.1
Don't know	2.5	1.4	1.1	0.7	3.2	0.7	0.8	1.1	1.3
Total	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*

Note: Business angel: relation to investee: close family 41.4%; other relative 8.6%; work colleague 8.9%; friend/neighbor 26.7%; stranger 7.6%; other 2.8%; don't know 2.7%; refused 1.4%

in the United States and globally continues to exhibit a substantial family business dimension. For example, from the PSED, we see that nascent ventures with spousal pairs and teams controlled by at least 50% kinship ties accounting for roughly 30% of all nascent business initiatives. Consequently, these results suggest that continued future research is warranted to provide a more complete understanding of this important family and family business dimension of nascent economic activity.

The prominence of spousal ties in nascent entrepreneurial activity provides, at a minimum, indirect support for the idea that family life is a central concern in the earliest days of the new venture creation process. It is interesting to note that a little more than 50% of respondents report their parents having owned a business and 48% of those respondents report having worked in that business either full- or part-time. Also, it is noted that "building a business children can inherit" is a significant personal motivation. Taken together, this seems to suggest that entrepreneurs are consciously aware of and making decisions with family life as a significant concern from the outset of their respective entrepreneurial efforts. A question of interest for future research would be to consider more directly the extent to which this influence occurs as a "conscious" form of cognitive and decision-making behavior.

Similarly, the results reflecting the motivation to create or continue a family tradition appear to suggest that nascent entrepreneurial decisions with family life and legacy are indeed part of the nascent entrepreneurial equation. An interesting question for future research in this regard would be to consider the strength of such motivational influences both alone and in combination. For example, one question of interest is whether being motivated to continue a family legacy or create a family legacy has a more substantial influence on nascent start-up activity. Another question of potential interest would be the extent to which the presence of both existing and/or new family business legacy would have a synergistic impact on efforts to sustain and/or launch a nascent venture. Future research might consider questions focusing on the speed and intensity with which nascent entrepreneurs with such background influences navigate the start-up stages. Similarly, future research may also consider the extent to which such influences impede or enhance the persistence of nascent new venture creation efforts.

The results presented here lend support to prior work suggesting that the role of family background in business is indeed an influencing factor in the start-up process (e.g., Hundley 2006; Katz 1992; Krueger 1993; Matthews and Moser 1995, 1996). Parental background, especially with regard to early socialization and learning, has long been regarded as a key element associated with likelihood and/or interest in fostering a preference or inclination for new venture start-up. Research has fairly consistently shown that with a family background in business, an individual is more likely to be engaged in nascent entrepreneurial activity. As noted above, Hundley (2006) confirms that, "…both paternal self-employment and background family income substantially affect the likelihood of self-employment among men." He also concludes that self-employment propensities increase with parental assets and inheritances or other gifts. Overall, the PSED provides additional insight into the role of parental background, showing that 52% have a family business background. Overall, this suggests that role models, in particular parental or family role models,

as indirect influencers on nascent entrepreneurial career preferences or expectations merit continued analysis.

This may or may not be directly related to the type and/or amount of work experience the nascent entrepreneur has gained in or out of the family business. Interestingly, part-time work experience in the family business seems to lead to a greater rate of nascent entrepreneurial activity than full-time work experience in the family business. While somewhat counter-intuitive on the surface, this may well explain in part the propensity of family background in nascent entrepreneurial activity. If indeed, early exposure to family business practice is related to start-up activity, being less engaged in the family business may lead to splitting from the family business to engage in one's own entrepreneurial pursuits. Limited exposure to working in the family business may not provide the "ties that bind" or the embeddedness in the family business practice, but enhance the potential embeddedness in one's own nascent entrepreneurial activity. Whereas, a deeper exposure to the family business via full-time work experience may enhance the process toward family ownership and management succession. Future research may need to focus on these overarching dynamics to further address the propensity to succeed in the family business vs. striking out on one's own.

Family and nonfamily financial support in nascent entrepreneurial activity provides some key insights into the funding behind the nascent ventures. Indeed, family financial support appears to be a meaningful dimension in the nascent new venture creation process, but not necessarily to the extent that may have been previously thought. Our results based on data from the PSED II suggest that nearly 50% of nascent entrepreneurs rely on their own personal funds, followed by personal bank loans, asset-backed funds, family funds, credit cards, and friends. Moreover, the results presented here on the reliance of personal funds are consistent with earlier research focusing on pre- and post-business registration (Matthews et al. 2009). Specifically, that as the venture progresses it may gain credibility in the eyes of potential external funding sources and relies on family sources to a lesser extent over time as a result. Initially, however, personal funds, personal bank loans, and credit cards account for 86% of funding when family teams are greater than 50%; 69% of funding for sole proprietorships; and 93% of funding for spousal pairs. This suggests the importance of the family commitment in the early venture stages, especially in the case when family firms are greater than 50% or spousal pairs. Consequently, future research may wish to focus on how these two areas might differentiate themselves especially with regard to the speed these nascent ventures may need to diversify from personal internal sources to more external sources of funding.

2.5 Conclusion

With over 80% of all firms in the United States classified as family or privately held ventures, family business is an integral and dynamic element of economic activity and growth. Over the years, family business research has, is, and continues to

provide insight into our evolving understanding of the many dynamic aspects of family business. While a relevant and rich research family business literature has evolved around established family ventures, especially with regard to the critical elements associated with management and ownership succession, little has been examined around how the family in business begins its entrepreneurial journey.

While there are numerous variables involved in the start-up of any venture, several emerge as particularly interesting and informative around nascent entrepreneurial ventures and family business. These include but are not limited to issues surrounding family life, family tradition, parental background, work experience in family business, family financial support, in concert with primarily family role models, extended family and other role models, and attitude toward and encouragement by role models. While we have begun the journey of our deeper understanding around a number of salient family business and nascent entrepreneurial variables, we are only just beginning to evolve a more complete understanding of the nature of the embeddedness of the family relationships measured by these variables. With the foundation provided by both the PSED and the GEM data, it is anticipated that our understanding will continue to evolve. For example, an underlying question remains as to the conscious awareness of these variables by the nascent entrepreneur or if these occur in spite of an awareness. Also, while socialization and social learning theory have taken us so far, we are just beginning to explore how evolutionary forces inform the nature vs. nurture equation and nascent entrepreneurial activity in the short and long term (White et al. 2007). Future family business research will do well to include a robust mix of these variables to further enhance our understanding of the nascent entrepreneurial journey.

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Chapter 3
Intentions in the Family Business: The Role of Family Norms

Malin Brännback and Alan L. Carsrud

3.1 Introduction

Despite the increased interest in family business as a field of research, many studies still lack theoretically sound and empirically robust measures and models (Dyer and Hoy 2003; Carsrud 2006). While entrepreneurial intentions are a highly established area of entrepreneurship research, it seems that intentions of family members to enter (not enter, or even exit) the family firm are rather under-researched. Our understanding of why family members intend to join the family firm (or not) appears to be mostly based on individual cases, or mythological. Similarly, the intentions of founders to pass (or not transfer) their business to the next generation are still under-researched.

The most commonly applied intentions model within entrepreneurship research is based on Ajzen's Theory of Planned Behavior (TPB) (Ajzen 1991). While the TPB has been criticized (Bagozzi and Warshaw 1990; Bagozzi 1992), it has proven robust within entrepreneurship research (Bird 1989; Davidsson 1991; Krueger and Carsrud 1993; Krueger and Brazeal 1994; Krueger et al. 2000). Only recently has the linearity of the model been questioned and initial research results have proven doubts valid, suggesting a need for considerably more sophisticated modeling (e.g., Krueger and Kickul 2006; Brännback et al. 2006, 2007; Elfving et al. 2009). The linear notion may be particularly problematic in a family business context where a founder intending to step down is "intending" to pass the firm on to a new generation. However, no action is taken despite the "intention" because the intensity of that

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intention may only become sufficient when it is too late to realize the intention – such as the founder's death. In criticizing the TPB, researchers have argued that TPB only applies to volitional behavior (Bagozzi and Warshaw 1990; Bagozzi 1992). For nonvolitional behavior, Bagozzi and Warshaw (1990) proposed the Theory of Trying, which allows for the inclusion of unforeseen events in the process, such as illness or even death.

Succession within a family business appears by far more nonvolitional, which would suggest that the Theory of Trying is more suitable as a basis for studying intentions in family firms. Moreover, intentions in a family business are far more complex than intentions to start a venture. For example, parents may have intentions about a child entering the family firm, the children have their own intentions about their careers and joining the family firm, and even siblings can have conflicts around their intentions with regard to the family firm. All of these are seen in the mini-case below, which sets the stage for this chapter to explore the realm of potentially conflicting intentions.

In addition, the intentions research in entrepreneurship is inconclusive with respect to the impact of social norms on intentions. This area could benefit from studies that explore the normative expectations concerning joining the family business. This chapter discusses how social norms in family businesses are both context and content dependent. We propose that the concept of social norms is too broad. Within family businesses there is a distinct set of norms, which have to be separated from social norms. These are "family norms." We also argue that social norms and family norms are potentially antagonistic. It is suggested that family norms are significant drivers of the intent to enter the family firm and should therefore be empirically studied.

3.2 A Case Example

3.2.1 The Dilemma

It was a cold day in December in Fargo, ND. Rick, age 30, had a decision to make. Should he stay to run the family's successful agricultural equipment business or live his dream and go to Nashville to start a recording business? His mother, from an old line German-immigrant Catholic family, was pressuring him to take control of the family firm. The business had been in the family for five generations and until his mother, always run by the eldest son. However, Rick knew that his sister had always wanted to run the business. The firm was her passion, not his. It was a very cold day in Fargo in more than one way.

3.2.2 Family Background

Rick always wanted to be his own boss and start a recording company to produce music. Growing up he helped his mother, Elizabeth, run the family's 100+ year old retail business that she inherited from her father as his only child. He knew the

importance of the family firm to the family's identity, but selling farm equipment and seed stock did not excite Rick. Rick's father, Jim, was an engineer and construction manager. He was good at his job in designing highways and bridges for the state of North Dakota, but due to his alcoholic tendencies, he mismanaged his family's finances and often times lost his job. Thus the family had become dependent on the success of Elizabeth's farm equipment business.

Jim and Elizabeth have six children, the eldest are three males, Rick, Joe, and Tom with Rick being the oldest. The youngest were three females: Jill, Lucy, and Mary. Jill, the oldest girl, was the only other sibling who worked in the family firm besides Rick. She loves the time she spends in the firm, selling tractors and talking about the winter wheat crop with the farmers who came in to see the newest equipment. However, Rick was always his mother's favorite child, perhaps because he was the only male who actively worked in the family firm and she felt that the firm would best be run by a man. It was Rick to whom Elizabeth always turned to for help. She expected he would take over the family business when she wanted to retire. She never seemed to realize how much Jill loved the business and how good she was as a sales person. Elizabeth, despite being the CEO of the firm, always felt that a woman's place was in the home and she wished she did not have the responsibility for the family's financial well-being as well as the firm and its employees.

Rick grew up as the "cool guy on the block," very handsome, intelligent, and musically inclined. He was very popular and women seemed to fall in love with him easily. During this time, Rick went to university and studied accounting at the urging of his mother who felt that he should be able to take over those duties in the family firm. Rick, on the other hand, quietly took a second major in music because he wanted to run his own recording company. He worked at local music clubs on weekends to make money and to be close to the thing one thing he loved, music. Elizabeth always felt her son would outgrow this "music business foolishness."

Suddenly Jim became very ill. Elizabeth wanted to step down from running the family's equipment business in order to move to a warmer climate to help Jim's health. She knew she could not sell the firm for what it really was worth in the current economy so she turned to Rick. She asked him to take over as CEO of the family business, so he could keep the firm running to support his parents, his younger sisters, and himself. Elizabeth wanted her eldest daughter, Jill, to move with her parents to help Elizabeth with the younger siblings who still lived at home. Jill, however, had no such intention. Rick seemed torn between the demands and traditions of his family and his own intentions to be in the music business.

3.2.3 The Decisions

The time for turning intentions into actions was upon the family. Rick has never given up on the idea of running his own business. Everyone in the community thinks he should take over the firm, but Jill still wants to run the family firm. Elizabeth has her own expectations and intentions; Rick was to run the family firm and Jill was to become the second mother of her younger sisters.

3.3 Intentions Research in Family Business

Intentionality studies represent a research approach for predicting various behaviors. Intentions have been studied above all within social psychology, but also in areas such as consumer behavior, health care, and adoption of new technologies (Brännback et al. 2007). While it is difficult to predict future human behavior, it is of primary interest for most researchers studying human behavior. Essential to any successful businesses is being able to understand and manipulate human behavior to the advantage of the business. This is true if it is marketing a product or getting a child to enter the family firm. For example, most professional marketers are occupied with impacting human behavior. The TPB is still the best model for predicting future behavior and has proven very effective in very different contexts. Family firms present a context where understanding intentions of future activities is critical, especially with respect to succession.

Within entrepreneurship research, two theoretical bases exist; the already mentioned TPB and another: Shapero's theory of the entrepreneurial event (Shapero 1982). While the former is the most commonly used, both models have been used and a comparative study has shown that they are equally powerful in predicting entrepreneurial activity (Krueger et al. 2000).

The basic model is depicted in Fig. 3.1. Path analysis has confirmed that the correlation between attitudes and behavior is fully explained by the attitude–intention and intention–behavior links (Kim and Hunter 1993).

According to the model, intentions are dependent on personally perceived desirability and feasibility. Perceived desirability is impacted by social norms and perceived feasibility is driven by self-efficacy. Self-efficacy is a subjective measure of what a

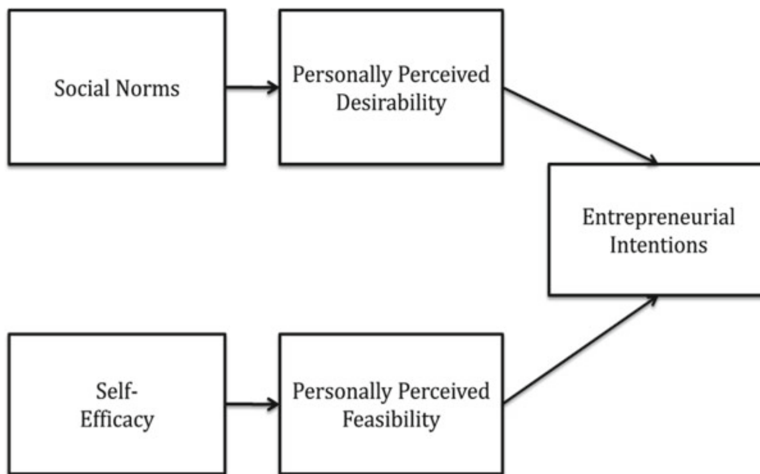

Fig. 3.1 The Entrepreneurial Intentions Model (adapted from Shapero 1982; Krueger and Brazeal 1994; Krueger et al. 2000)

person thinks he or she can do, regardless of whether that is true or not. Previous research results are inconclusive with respect to the impact of social norms on intentions to act, and it appears that there are some variations across different cultures.

Within family business, we have multiple options where intentions may occur. Such research would not only significantly improve our understanding of intentions in general, but also significantly contribute to family business research in terms of the intention to join a family firm. These may be an individual who is a family member, but without ownership in the family firm. It could be a family member, with ownership, who has previously not participated in the family business, but who now is considering joining the firm. It can be an outsider (a person who is not part of the family or the family firm) considering joining a family business. Or it can be a senior member within the family firm who intends to pass on the firm to somebody in the younger generation or somebody outside the family. In all of these cases, intentions will be driven by personally perceived desirability and perceived feasibility. What is not included in the traditional models of intentions is how intentions, or in this case expectations, by one individual are transferred to the intentions of another. That is, how are the intentions of the owner generation transferred or converged with those to whom they want to transfer leadership and ownership?

Moreover, within family firms, social norms are probably a functional group of multiple norms – a norm system. There may be family norms such that a family member is expected to join the family firm. These would be intrinsic social norms. At the same time, there may be a social norm within society where it is expected that family members will join the family business. Not joining the family firm would be interpreted as some kind of conflict within the family or even an insult to the family. Such a social norm would be more extrinsic. Therefore, the impact of social norms on intentions within a family business context is expected to show considerable variations depending on the strength and direction of the family norms and societal norms. In fact, studying the impact of social norms and/or family norms on intentions is a highly relevant research area which still needs exploration. Finally, what happens when the intentions of parents are not matched with the intentions of children as in the mini-case above?

A model of intentions toward pursuing an opportunity within one's family firm could therefore be altered as shown in Fig. 3.2. Family norms have been added to the model. The dashed arrows show possible impact of family norms that have to be empirically tested. We have indicated a possible bidirectional influence between social norms and family norms, which also needs to be empirically analyzed. In fact since there is reciprocity between attitudes and behavior, i.e., behavior influences attitudes and attitudes influence behavior, we also expect other reciprocities to exist.

3.3.1 Social Norms and Family Norms

Social norms represent perhaps the most interesting component of the Ajzen–Fishbein framework. However, social norms are complex. In fact, social norms

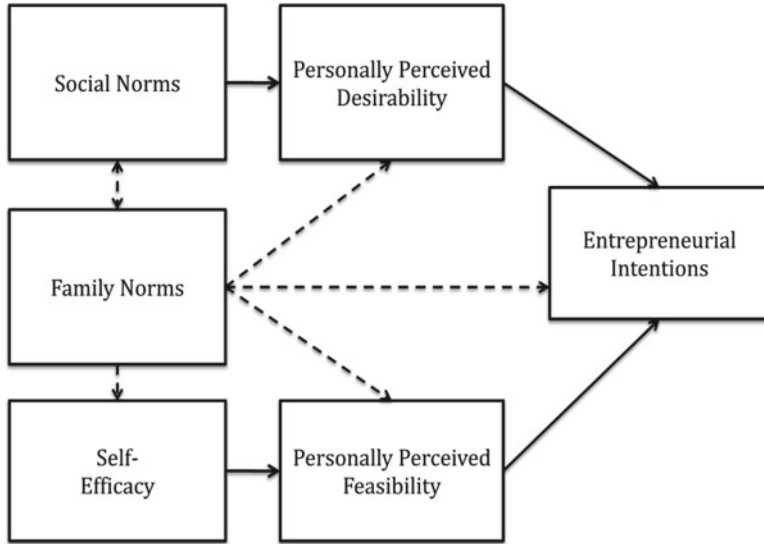

Fig. 3.2 The role of family norms in family firm intentionality. The *dotted lines* indicate suggested impacts of family norms that should be empirically verified

appear to be a function of multiple sets of norms including general social norms in society, organizational norms, professional norms, family norms, and perhaps even personal norms. Social norms is a function of perceived normative beliefs of significant others (e.g., family, friends, coworkers, peers, etc.) weighted by the individual's motive to comply with each normative belief. Social norms often reflect the influence of organizational (or community) culture. That is, the impact of climate and culture on intent operates by its impact on perceptions of desirability (and perhaps feasibility as well).

Social norms are anything but simple, for example within the United States, there is the norm that children should be independent and have their own careers. If this independence can be embedded within the family firm, it may be seen as a positive thing. However, if it is seen that the firm is just the "bank" for the children, they may not enter the firm. These same children may take the wealth as an entitlement and even waste that wealth, which society may view as a negative outcome.

Bryant and Bryant (1998) show that as social norms in a community change those new norms are more likely to be regarded as an opportunity. Certainly, we see this in the mini-case above where the son realizes he can have a career in music and he is not limited in his career options to rural America. Measuring social norms requires identifying appropriate reference groups. The reference group for a potential entrepreneur may not be family and friends. It may be the perceived beliefs of their friends, including those who have already started a venture. Such reference groups also likely entail multiple stakeholders outside the family. The reference group for someone deciding about a role in the family firm might well be the family.

The fundamental question here is whether social norms and family norms are distinct concepts. We suggest that within the context of family business they are different concepts.

Social norms provide guidelines for what a culture regards as desirable behavior. For example, if the norm is for a person with an academic education seeks employment in a large firm to climb the career ladder there rather than enter the family business, then it is obvious that entering the family firm will not be considered a viable opportunity. We see a similar pattern in the mini-case.

Although we understand that social norms vary, most research tends to show that social norms do not explain additional variance in intentions for would-be entrepreneurs (Krueger et al. 2000). One reason for the inconclusive research results with respect to social norms impacting intentions most likely stems from the multifaceted nature of norms. That is, what is being measured? Are these norms general, professional, or family based? Which dimension of norms is measured? In fact when we look at the items that measure social norms in entrepreneurial intentions studies, we find that they are restricted to family and friends. That is they do not reflect the complexity of social norms. This may indeed be one of the reasons for the inconclusive research results in the entrepreneurial intentions literature.

We argue here that family norms in family business context do have an impact, but researchers have to be careful in distinguishing what norms are at stake here. Can family norms be separated into a distinct norm component different from other potential norm components? We think so. As pointed out by Krueger and Kickul (2006), Carsrud et al. (2007), and Elfving et al. (2009) if social norms are valid constructs, cultural contexts should be reflected in them, perhaps not as real measures but at least as a proxy. One of the best tests therefore for the effect of social norms on intentions might well be to study the process of intentions within family firms across different cultures (Elfving et al. 2009).

3.3.2 Self-efficacy

Self-efficacy is one's sense of competence, belief that one can do something specific (Bandura 1997, 2001). Previous research shows that self-efficacy is a strong driver of goal-oriented behavior (Baum and Locke 2004; Bandura 1997, 2001). The concept reflects an individual's innermost thoughts on whether they have the abilities perceived as important to task performance as well as the self-confidence that they will be able to effectively convert those skills into a chosen outcome (Bandura 1989, 1997). Self-efficacy is related to one's choice of activities and one's tenacity, one's emotional reactions when failing (Bandura 1997, 2001). Thus, self-efficacy is concerned with one's judgment of what one can do with whatever skills one possesses, not with the actual skills one has (Chen et al. 1998; Markman et al. 2002). Hence taking action requires consideration of not just outcome expectancies (i.e., desirability) but also perceived self-efficacy (i.e., feasibility).

Self-efficacy perceptions play a powerful role in managerial and employee behavior and have been found to distinguish managers from entrepreneurs (Chen et al. 1998). The question is whether the patterns for those entering the family firm are like those of managers, entrepreneurs, or employees. Indeed, there are cultural differences in self-efficacy (Bandura 1997). Increasing self-efficacy requires more than just teaching competencies; students and trainees must fully internalize the competencies. Thus, they carry embeddedness similarly to culture (Schein 1985). However, self-efficacy can also be collective, i.e., support from other organizational members, like a sister or an aunt, of an individual's intention can be important and needed as support. Thus, perceptions of collective efficacy are likely to be important (Bandura 1989, 1997). It is highly likely that collective self-efficacy reinforces social norm and low collective self-efficacy can decrease high personal self-efficacy as to ultimately inhibit action. That is, social norms, self-efficacy, and culture are tightly interconnected.

The TPB assumes an intention is volitional. That is nothing really keeps an intending person from transferring an intention into action. In Theory of Trying, it is assumed that intentions are nonvolitional, i.e., something unexpected can indeed come in the way. One special impediment, which may seriously disturb intentions within family businesses, is related to family conflicts. Here a simple example may be useful and builds upon the mini-case above. Rick has an intention to start his own firm and does not have the intention to enter the family firm. His mother, Elizabeth, on the other hand has the intention (or goal expectation) that Rick will take over the firm. At the same time she has the expectation that Jill will not take over the business, while Jill indeed has the intention to take the leadership in the family firm. Here is an example of where intentions can either be compatible, or in conflict. In this case they seem to be antithetical to each other. Different perspectives on conflicts are presented in chapters throughout this book.

3.3.3 Family Firms and Intent

If we use family firms to study intentionality, what are we attempting to revise within the theories of intentionality? What are we adding to the family business literature? In most entrepreneurial intentions studies, we find that most researchers have accepted the core model, with occasional deviations with primarily an insignificant role of social norms. The addition of a family norm component might be considered advancing the evolution of the theory of intentions. Additionally, family firms offer a vehicle for studying the role of potential conflict between intentions.

Intentionality may occur in other situations within family firms. We are likely to find results that differ from the expected, and explanations to these differences in factors and phenomena that are not found significant in previous entrepreneurial intentions studies. Moreover, some explanations to results may require considerable local knowledge and would be highly context specific and therefore not easily generalizable (Elfving et al. 2009). The reasons may be embedded in the inter-relation

of family norms, family culture, or collective self-efficacy that is unique for the particular context of that specific family firm: in other words the content and context of the family firm.

Finally, previous research has assumed the intentions model to be linear and very rarely, with a few exceptions, challenged that assumption. However, Brännback et al. 2006 and Krueger and Kickul (2006) found a reciprocal relationship between the dependent variable intentions and the independent variables desirability and feasibility. Moreover, support for reciprocal causation has been found before (Kelman 1974). That is, attitudes impact behavior and behavior influence attitudes (McBroom and Reed 1992). An interesting and valid question is how reciprocal causation has escaped the attention of entrepreneurial intentionality researchers in explaining the attitude–behavior link. We expect to find additional support for reciprocal causation when conducting intentionality studies within a family business context.

3.4 Needed Research

What is needed is research to understand the intentions process and how decisions are determined to enter a family firm, from a normative perspective that also considers an individual's overall self-confidence (self-efficacy). That is, research should examine the complex interplay of social norms, family norms, and self-efficacy on family business intentions. We expect that personal perceived desirability will be more dominant in the family business intentions model than in entrepreneurial intentions.

We do believe that it is important to identify the set of norms present in family firms. It is not just a question of whether an individual is part of a family, which owns a business. It will be equally important to identify any history of business ownership. That is, are there grandparents, mother, father, sister or brother, or uncle/aunt who are also entrepreneurs and business owner. That is, people may have a personal experience with a family business concept that is run by an uncle or aunt and not necessarily father–son/daughter.

Family norms may certainly drive a person's intent to join the family business. It seems reasonable to assume that the most powerful influences on joining a family firm would indeed be family. It is possible that perceptions of self-efficacy with respect to entering a family business are strongly influenced by family norms. This is different from where social norms are typically considered as a component of the perceived desirability of an action (not of perceived feasibility). Is it possible that family norms include either (a) a strong element of collective efficacy that supports personal efficacy beliefs and/or (b) that family norms include explicit and implicit cues that the offspring already possesses the capability to enter the family business, as in the mini-case above.

Lentz and Laband (1990) demonstrated that in professional occupations the propensity to follow in a parent's footsteps is driven by a significant transfer of human capital. They also note offspring need not be "aware" of the transfer, but obviously

must come to believe in it. This suggests that future research should look closely at the nature of family norms in terms of how and when human capital is transferred. Past research has argued that the key attitudes toward entrepreneurship are influenced by early life experiences (such as growing up in a family business) and so too are the deep beliefs of which we are not always conscious.

Anthropologists would probably argue that the "who" is important: Which relatives are most credible in communicating family norms. The patriarch or the matriarch may be the loudest voice, yet the offspring may find the most persuasive voice in an uncle or cousin. Anthropologists would thus suggest that cross-cultural research should take a closer look at differences in kinship structures (Rogers et al. 1996).

What if intent influences self-efficacy? While self-efficacy seems a logical antecedent of intent, we may see in a family firm situation that the intention to join the family firm may impact one's perceived self-efficacy. Self-efficacy beliefs are often associated with self-fulfilling prophecies (e.g., Bandura 1989, 2001) in that higher self-efficacy leads to higher goal-directed effort and that we may rationalize that effort through beliefs (even if illusory) that we have the skill, thus forming a virtuous cycle. (Alternately, low self-efficacy and low intent can create a vicious cycle.) Future research should find exploring this reciprocal causation over time most intriguing.

3.5 Conclusions

This chapter started with the intent to look at intentionality in family business and the role of family norms and social norms. We continue to hold that there is a relatively large blank area of our knowledge base with respect to intentionality within the family business.

Obviously, we believe that social norms and family norms have to be defined or described in detail in family business and entrepreneurship research. We have to explicate what social norms prevail for family member – or at least point at the issues, which divert from the observer's system of norms. We believe that researchers have to operationalize two different social norms, general and family, which is a good start. Moreover, family norms are likely to be family specific and therefore less generalizable.

Finally, in this chapter we have argued that the intentionality model may not have been pushed to its limits. This may be explained by arguing that theory development in intentionality studies are the result of abduction, i.e., inference to the best explanation of what is already known. The intentionality models have been able to predict intentions, but through abduction we merely get more varying results of what we already know.

Instead, we have to push the model through deduction, i.e., derive the consequence of what is known and explain how intentions get enacted; to start a firm, to take over a family form, or to decide to do something entirely different. Within family firms,

we clearly do not adequately know what drives intentions. Social norms play a role, but social norms are a complex construct which most likely is context and content dependent exactly as is family. However, we do need to find ways of explaining how we get from intentions to action.

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Chapter 4
Identity Dynamics in the Family Business Context: A Novel('s) Perspective

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4.1 Introduction

> Perhaps one of the most important lessons about management that we might learn from novels is how these everyday ways of thinking and talking – of defining our identity as persons, of locating ourselves in a moral economy, of moving between a home life and office life, of being seen as rational – is historically bound and contingent. By reading good fiction, we can open ourselves to view the origins of these familiar realities and can also open ourselves to the possibility for changing them (Boland 1994, p. 136).

This chapter sets out to create a novel understanding of identity dynamics in the family business context. Focusing on Hjalmar Bergman's *The Head of the Firm* (1924), a fiction novel, our purpose is to describe and interpret how the personal identity of an entrepreneur is challenged and changed in relation to demanding and overlapping family, business, and societal norms and expectations. In our case, particularly events related to succession of management and ownership in a family business form dynamic and emotional plots that propel the story forward.

In management research, it is well established that narrative fiction, such as novels, plays, and films, can serve as a basis for the creation of (social) "scientific" knowledge (e.g., Phillips 1995; De Cock and Land 2005; Czarniawska 2006). As Phillips (1995, p. 629) notes: "by allowing us to discuss the subjective dimension of organization, narrative fiction works as a useful counterpoint to the traditional objectifying methods – both qualitative and quantitative – commonly used in the study of organization." We contend that novels that take place in an organizational context include important features of identity and change, such as subjective, emotional, and value-based elements of life that are difficult to capture and grasp using traditional research methods and empirical data collection (Waldo 1968; Czarniawska-Joerges and Guillet de Monthoux 1994). Despite many plots in novels

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taking place in entrepreneurial and family business contexts, it is fair to say that there are very few attempts to investigate and build knowledge on novels explicitly from such a perspective. Our chapter is a modest attempt to contribute toward opening up such a research stream.

Entrepreneurship and family business researchers have only recently argued to take into account the "everydayness" of entrepreneurship (Steyaert and Katz 2004), including the role of family and household contexts (among others, Aldrich and Cliff 2003), and also to explore identity in greater detail through narrative approaches. Some scholars discuss how identities are formed and the role of narratives and stories in that regard (e.g., Down 2006; Down and Reveley 2004; Hytti 2000; Lounsbury and Glynn 2001; Warren 2004). This chapter focuses on how identity construction in the family business context is a process in which socially embedded norms and expectations, including the notion of what constitutes appropriate actions in family and business life spheres, are important.

Our aim is to extend identity theory and family business research through exploring in detail, and with inspiration from literary theory concepts (e.g., Iser 1989, 1993; Ricoeur 1991), the narrative construction of identity in the family business context. The chapter also aims to contribute to the methodology of identity and family business research by illustrating the relevance of drawing on narrative fiction, in particular the novel, to understand and theorize on identity in entrepreneurship contexts. In the next section, we describe the author and the novel in focus. We then construct the "case" by using quotes from the novel's English translation and offer some interpretation through the lens of identity dynamics in the family business context.

4.2 Hjalmar Bergman and *The Head of the Firm*

Hjalmar Bergman was a Swedish dramatist, novelist, and short story writer notable for his intense interest in psychological complexities. The son of a wealthy banker, Bergman was brought up in a middle-class home. Sometimes he accompanied his father on business trips to Bergslagen, a mining district outside Örebro in central Sweden. Bergman studied at Uppsala University and traveled extensively in Europe. Delicate nerves and the threat of blindness made his life difficult. In 1908 he married Stina Lindberg, and she became his defense against the "real" world. Bergman mostly led a restless and isolated existence in Sweden and other parts of Europe.

The Head of the Firm (*Chefen Fru Ingeborg* is its original Swedish title) was published in 1924 (the only translation into English was published in 1936) and is one of Bergman's most read novels. It has been transformed into both a film and a TV series. The novel tells the story of Ingeborg Balzar, who has successfully taken over her husband's firm after his decease. Ingeborg is a well-respected, disciplined, wise, and competent manager of a large and famous hat store based in Stockholm. She is the mother of two adults, a son and a daughter. Her life comes to a turning point when she realizes that for the succession of the business the younger generation will be necessary to get more involved. Another delicate matter, namely the fact that Ingeborg falls in love with her daughter's fiancé, further complicates the situation.

The socio-economic situation of Bergman's "realistic" novel meant strong cultural traditions, stereotypes, and expected roles for men and women. Men and women were placed in different social positions and were assigned with gender-based descriptions of work/home roles and responsibilities, a middle-class sentimental convention of seeing the male as the head of the family and provider, who caters for his family's interests in the economic arena of unregulated competition of self-interests (Rotundo 1993). Later research has indicated that these divisions have lived on; men and women are hesitant about the social identities linked to the balance of work and family roles, which builds on their traditionally female and male identities (e.g., Freudenberger et al. 1989). But the socio-economic situation of the time, the 1920s, when Bergman's novel is set, is also one of rapid change: from small-scale to large-scale production, from personal sales to mass commercialization; and this also affects Ingeborg's business.

4.2.1 A Story of Changing Identity

Jacques Balzar – Ingeborg's late husband – was an entrepreneur and Ingeborg has run the modiste shop for the past 25 years much in the spirit and taste of the deceased previous owner. Her customer base has basically remained the same. Early in the novel, Ingeborg is about to close a major deal concerning a quantity of hats. Should she make up her mind and sign the deal? This will not only constitute a major economic investment but also carry a risk she is not used to since the new collection of spring hats will be geared toward a broader group of customers. A strategic change from a narrow but exclusive selection of products toward a broader but less exclusive one relies on calculated risks regarding, among other things, the branding of the shop. In short, Ingeborg defers the decision when her closest coworker, the accountant, Mr. Andersson calls on her:

> The hat man is here. What answer am I to give him?
>
> 'My dear Andersson,' sighed Mrs. Balzar. 'I really haven't been able to make up my mind. Ask him to come again tomorrow.'
>
> 'No, I will not,' replied Mr. Andersson. 'The man has been shockingly treated already. Why can't you come to a decision, Madame? I'm afraid you are beginning to grow old.'[…]
>
> 'This is a mass article. If I take a big consignment, I can sell the hat very cheaply and still hope for a quite good profit. But for that the model must really catch on.' […] 'Andersson, I – can – not – make up my mind. Anyhow, it's a big deal; there's a lot of money involved' (Bergman 1924/1936, p. 15).

Pressed for a decision, Ingeborg turns to her son, Lieutenant Kurt Balzar, unconsciously admitting that the succession process has started. Ingeborg has been living in a long interregnum. Jacques stipulated in his will that the post as owner and store manager be handed over to his son, Kurt, as he turned 25. Ingeborg's own indecisiveness regarding the deal prompts her now to ask for his advice:

> At length the head of the firm spoke: 'The fact is I have had the offer of a big consignment of spring hats. It might possibly be good business. But I find it difficult to make up my mind. Perhaps I'm tired. I should like to have your advice.' Now happened what she, with

> maternal perception, knew would happen. First came the blush, sudden and quickly passing, followed by a nervous twitching of the eyelids […] the young officer sat down on the arm of the chair, took his mother by the chin, and regarded her with a smile which he himself supposed to be caustically satirical. She for her part found it just as childish and enchanting as all his other smiles. 'Oh yes,' he said in a highly satirical tone. 'Madame wants my advice? For the first time, eh?'
>
> She replied: 'It's not the first time I have asked your advice, but it may be the first time I shall follow it' (p. 21).

The ensuing discussion between mother and son illustrates her difficulty to separate family and business identity. Similarly, Kurt's roles as "the Son" and "the Successor/Heir" are hard to differentiate between, as illustrated in the following quote:

> He laid his hand over her mouth and talked. She kissed the hand that lay over her mouth, then took it away and talked. He put his hand back over her mouth and talked. This went on for a while. It was their way of dealing with serious matters. And the matter was serious. It concerned not only the deal in hats; it concerned the son's admission as a responsible partner into the firm (p. 22).

Mother and son, both equally strong-willed, had been over the matter of succession on numerous occasions. The family members' self-conceptions have been modeled against a family prototype whose beliefs, attitudes, feelings, and behaviors have borrowed heavily from both the firm and the family:

> Good taste could be brought in from outside. But how about the two wills? Therein lay a risk for the firm's prosperity and continuance, for their bread and butter and for domestic harmony.
>
> 'You are an obstinate mule,' Ingeborg would say, 'and that's your mother's fault. And I must try to accommodate myself as best I can.' To which her son would reply:
>
> 'That means nothing. But listen to me! Never, never will I come into the firm. Never so long as you live.' On which his mother would sigh:
>
> Then I had better hurry up and die.
>
> At that he would be angry, shake her and kiss her (p. 22).

Ingeborg knows she has to let go. She reluctantly starts the process of handing over the business to her son and witnesses him negotiating his first deal. The agreement Kurt will enter into with a hat manufacturer will make the company grow; Kurt intends to expand the shop premises and introduce completely new product lines geared toward a younger and broader customer bases. Ingeborg, however, has mixed feelings about the son taking over the firm:

> The reflection had changed, Mr. Andersson was now standing on the other side of the table blotting out Kurt with his broad back. Mrs. Balzar could see no more of her son than one elbow, the movements of which indicated that he was writing. So he had been through her figures and was now making his own calculations. For the first time in a quarter of a century the firm of Jacques Balzar was going to transact a piece of business quite independently of Mrs. Balzar's will. It was a melancholy moment. Big business or little, good or bad – in any event it was the beginning of the end. She grasped the handle, shut the door, and then set it ajar again. She did not know why she did so. In actual fact she did it to attract her son's attention. I am here! Perhaps after all it would be better for me. He paid no attention to her. This was annoying. But she said to herself: 'I am foolish and unreasonable. Can anyone be more fortunate than I? I am growing old, and I have a son who is the sturdiest, the most

> serious, the best behaved boy I know. He is twenty-four and he has never caused me a moment's uneasiness. He is tender and considerate for me as no one else in the world. And here I stand spying on him from behind a door and am jealous. There is no other word for it. I ought to be ashamed of myself. Whether he is a good man of business I have no means of knowing. But I know he is a good son. And that ought to be enough. But I am so stupid' (pp. 25–26).

She never really let go of and never really embraces her son's new growth plans. Partly, this is because her identity is so closely related to the firm. In the ensuing conflict between her and her son, the Balzar firm figures seem to follow the vicissitudes of the relationship between the old and the new generation. Indeed, the firm could be described as the lungs of the Balzars both business-wise and family-wise:

> What is to become of me? I have never had a moment to think about myself. I do not want to think about myself. It is unbearable. I am a middle-age woman with a business and two children. That's nothing to think about. But soon I shall have no business; at least not as before. And soon I shall have no children; at least not as before. What have I then? Nothing. What is to become of me? Nothing. It's so simple. But it's not pleasant. It's unbearable to think about oneself (p. 50).

At the age of 45, Ingeborg is forced into retirement, according to the wishes of her late husband. In effect, however, she is also toppled as the head of the family, forced to exit not just one, but two of her most important roles, in fact, roles constituting her whole life: head of the family and the business head. But even if the business is formally run by Kurt, he and his sister, Suzanne, are at a loss how to properly address this new situation, something which becomes evident at the family dinner when Suzanne's engagement with Louis de Lorche is announced. Ingeborg clings to her roles as head of the business and the family:

> The champagne was delicious and cold, and she proposed the health of the young people. She was aware that Kurt intended to speak. In his capacity as head of the family! That was why he had been so solemn; he was thinking out and elaborating his speech. Now he quickly seized his glass, but Ingeborg seized her quicker still. That was what the head of the family got for his pains (p. 58).

Ingeborg's role diffusion becomes clear as the family quarrels over how the fiancé should address her:

> Kiss me on the cheek. You may call me Mama.
>
> 'Mama?' repeated Suzanne, astonished and vexed. 'You're not his Mama! Why can't he call you Ingeborg?'
>
> 'Ingeborg?' repeated Kurt, even more astonished and vexed. 'Ingeborg! But that doesn't sound respectful. Why shouldn't he call her aunt?'
>
> Mrs. Balzar listened to these suggestions with a quiet smile. And she said:
>
> Only the Chief can decide this all-important point. And the chief's irrevocable decision is that he shall call me Mama (pp. 58–59).

However trifle the above little conversation may seem, it still shows Ingeborg's reluctance to give up her executive role in the family and her children's difficulty in assigning her a new role. And that will prove to be increasingly difficult for Ingeborg in the course of the story. Kurt decides to rebuild and redecorate the Balzar store as well as hire new staff. Also, the spring hat deal widens the customer base considerably.

These investments and strategic decisions eventually prompt Ingeborg to break her promise to Kurt not to intervene. The subsequent heated discussions eventually led to Ingeborg's reduced influence over the firm and slowly but surely and the executive power is wrested out of her hands. At the same time, Ingeborg is becoming increasingly introspective. At this point in time, it is clear that Ingeborg's identity is (too) closely connected to her position in the business and the family.

What eventually creates ruptures in the mother and son relationship is Ingeborg's plans to make the fiancé, Louis de Lorche, part of the firm *and* her constant interferences in the business activities. She once again goes through the accounts of the hat deal, which makes her do away with the new department:

> The reorganization would mean not only an indeterminate risk but also that her own insight and experience would become somewhat unimportant to the firm (p. 210).

That is, Ingeborg's "well known standard of quality" (p. 210), which had been demanded by the store's small but exclusive customer base, would lose in importance with the measures Kurt suggested and partly implemented. At the same time, however, she puts her son-in-law to be, de Lorche, in charge of the men's department and allows him to plan for its enlargement. This business decision is also driven by the fact that Ingeborg has secretively fallen in love with de Lorche. These decisions and family/business dynamics have disastrous effects on the firm and its employees – not to mention that it causes a family break-up and increasing discomfort in Ingeborg's mind.

The Balzars' family problems also have a detrimental effect on the prosperity of the family business. Ingeborg begins to neglect her office and does not attend to current business. Staff members sympathize with Kurt and are openly disdainful of de Lorche. All in all, the handing-over process which really began with Ingeborg letting Kurt conclude his first deal had ended in a disaster, with both the family and the company splitting up. This illustrates that with changes in the context of the group (family and company), Ingeborg, being the most influential in the group (the former head of the family and the firm), cannot conform to the new identity implicitly asked of her. In effect, now Kurt becomes the most prototypically influential in the group as the new head of the firm and, eventually, the head of the family, while Ingeborg dis-identifies with her group. All these make competitors move in to get their share of the declining firm's customer base, thus underlining the close relationship between identity change, family life, and business development in this family business. However, Ingeborg's commitment in honoring her late husband's will and her commitment to the firm get the better out of her and she makes one last effort to put the store back on its feet but finally resigns and puts Kurt back into the executive seat:

> The head of the firm showed herself more masterful and obstinate than ever. She seemed to want to tie down her successor, to force him to stick to the old course. All at once the unhappy hat deal was brought up again [...] but the whole thing ended with Ingeborg exclaiming impatiently: 'I know perfectly well that you're going to do as you please, you obstinate mule! And, come to that, it may be just as well. How do I know?' (p. 263).

Thus, a handing-over process which was initiated at the very beginning of the novel is finally brought to an end, and Kurt steps in as the head of the store and the

family. But Ingeborg also makes another final, and fatal, decision. She commits suicide torn apart by the identity conflicts that the succession of the firm and the love affair with her daughter's fiancé have caused.

4.3 Theoretical Considerations

4.3.1 How Can Novels Inform Identity Dynamics?

This chapter sees narrative fiction as most interesting for identity dynamics research when it *does not* directly imitate reality but suggests alternative plots, narratives, and characterizations which may or may not go against mainstream ideas and beliefs in organizational practice and research. Literary theorist Iser argues that "as human beings' extensions of themselves, fictions are ways of world making, and literature figures as a paradigmatic instance of this process because it is relieved of the pragmatic dimension so essential to real-life situations. The fictionality of literature is not identical to the results it creates, but is rather a modus operandi that manifests itself in distinguishable acts. These acts are marked by the fact that they are boundary-crossings" (Iser 1989, p. 23). In that sense, literary narratives, such as novels, also put into focus the anthropological equipment of human beings and their drive to form and change their personal identity (Iser 1993). It is thus in building alternative themes and stories that novels can generate creativity by offering alternative and "novel" readings about identity dynamics which are relevant also for contemporary research and practice (Czarniawska 2006).

While there might seem to be an unbridgeable gap between fiction and real life because "stories are recounted, life is lived," there is still a sense of significance of a narrative, which stems from "the intersection of the world of the text and the world of the reader" (Ricoeur 1991, p. 26). Also, there is, to Ricoeur (1991), a "*pre-narrative quality of human experience*. It is due to this that we are justified in speaking of life as a story […] and so of life as an *activity and a passion in search of a narrative*" (p. 29). The narrative structure of life is illustrated in our proclivity to see life as a change of episodes in which stories are told, and these life stories have, to Ricoeur, an "emplotment structure" to them; at a glance, life can seem as "the field of a constructive activity, borrowed from narrative understanding, by which we attempt to discover […] the *narrative identity which constitutes us*" (p. 32). Our narrative identity is always renegotiated against the narratives and discourses provided by our own culture, and, borrowing from the literary world, we "learn to become the *narrator* and hero of *our own story*, without actually becoming the *author of our own life*" (p. 32).

So, in our drive to form identity, it follows that narrative conventions are imminent. Stories guide life, and perhaps "life" and "life story" are "inextricably interwoven in one continuous fabric of meaning and sense" (Brockmeier and Carbaugh 2001). As Iser (1993) argues from the point of view of literary anthropology, fiction

works as a mirror of the human ability to permanently undermine restrictions, and perhaps the literary language can be seen as an embodiment of the plasticity of the human being. Narrative fiction then opens us up to the hypothetical, to the range of actual and possible perspectives that constitute the real life of the interpretive mind (Bruner 1990). Bruner (1987) even holds that there is no such thing psychologically or subjectively as "life itself" (p. 13), but what we call "my life" is ultimately our own creation. To Bruner and Weisser (1991) "lives" are texts: texts that are subject to revision, exegesis, reinterpretation, and so on. However, these "human texts" are continuously re-composed and re-storied, that is, they are subject to continuous change, and in this process of authoring and re-authoring, narrative tools are used when weaving new themes into our life narrative. Thus novels, which themselves are reflections of what we construct as "life," can be helpful in illustrating and guiding us on how these new themes as well as personal and professional identities emerge and change over time. This is taken forward in the next section, which outlines our perspective on identity formation.

4.3.2 Identity Formation and Identity Change

Down (2006) outlines three distinct conditions for self-identity. Given our focus on a novel and the concepts from literary theory introduced above, we find two of Down's (2006) concepts helpful for our purpose: identity as stories being made and identity as relations with others in time and space (the third is identity as moral choice). Especially Down's second perspective concurs with Czarniawska's (2000) position to move from the traditional, static, and what she calls *inherent perspective* on identity toward understanding *identity as an emergent process of construction*. In this view, an individual's identity is continuously created and formed in interplay with other social actors, norms, and institutions in a given time and place. The construction of identity can thus be seen as a process of positioning, whereby individuals in interaction define who they are in relation to *others* (Davies and Harré 1991). Defining who you are is as much about defining who you are not. This means that a person's identity is not to be found in that person's individuality, "but in his or her relationship to the community in which he or she lived" (Czarniawska 2000, p. 273). In terms of identity dynamics the key here is individuation, that is, the process of relating to but distancing and distinguishing the self from the given community. In the ensuing boundary dynamics, where individuals make sense of their own identity boundaries as well as the collective organization's boundaries, a fit or lack of fit is worked out (Kreiner et al. 2006).

The importance of the notion of identity as a dynamic process of construction becomes even clearer in the light of Iser's literary method. To Iser (1989), narrative fiction prompts readers to question received meanings and preconceived ideas. By triggering the reader to come to grips with his or her own ideas, fiction triggers identity formation through pointing out the lack of dynamics that comes with being confined inside the world of our own ideas. In other words, fiction can draw our attention to the "taken-for-granted" issues of daily life and make us questioning those.

4.4 Discussion

This section looks at aspects of identity formation and dynamics in *Chefen Fru Ingeborg* as presented in the "case" above. Identity construction is a process of positioning oneself in relation to others (Down 2006; Davies and Harré 1991), and identity evolves through social interaction and also through group membership in organizations (Asforth 2001; Czarniawska 2000). These various, albeit interrelated mechanisms of identity formation are all visible in the novel: Ingeborg struggles with a highly personalized battle with changes in both the competitive and institutional environment, the constraining dominant view of her as a woman in business, and how to deal with family relations with impact on her vision and ability to expand the business. For Ingeborg the spheres of the family (private) and the business (public) become intimately interwoven. The dynamics arising in the novel are thus closely related to her search for and construction of identity as well as depicting identity loss as the final outcome of her struggles.

Ingeborg positions herself within the business world, interestingly acting in contradiction to the then prevailing expectations of society regarding women. "The Boss Mrs. Ingeborg" (which is the exact translation of the original Swedish title of the book) has successfully shouldered the responsibility of taking over after a male business owner, during a time where women's usual identity was connected to home and family, and she invests emotionally and professionally in her business. In her total commitment to the firm, Ingeborg undermines the doctrine of separate spheres of her time and place (a woman could not possess self-interest since she was the embodiment of self-effacement and the view that the world of business is an exclusive male habitat). Ingeborg's physical and symbolic presence in the firm is a central theme throughout the novel. She adheres to her "female" self in that she plays the role of nurturing and caring in both business and family, as illustrated in her verbal altercations with her son Kurt, which alternate between tempestuousness and tenderness. Thus, her self-concept builds on her social identities of being "the mother" and "the boss" and these two "roles" are inextricably entwined. This is also evident throughout the novel in how the employees and customers define Ingeborg. She is "the boss," but she is also a widow caring for the business until her son is old enough to take over. This illustrates how her self-concept is constantly challenged and indeed recreated in her interaction with others (Czarniawska 2000).

Ingeborg's identity as a manager of the firm and the family has been chiseled out against (business) family members and employees since the demise of her husband, and she has personified the "lead story" of the company in terms of customer base, strategic investments, and decisions. What is more, the company story has been synonymous with her own life story, "the genre through which events become experiences" (Hillman 1975, p. 146). However, the fit between Ingeborg's self-story/company story and her new (business) life leaves much to be desired. For example, Ingeborg has over the years increasingly organized her life around the demands of the family firm, which has earned her both her inclusion and the epithet "Boss" in the domestic and the business sphere. In the novel's story of identity, the "work/home border" (Clark 2000) is therefore blurred: The internal and external boundaries

are notably absent and as her interregnum is finally brought to an end by her handing over the firm to Kurt, this role diffusion leading to identity confusion explains her tragic demise.

In terms of identity, Ingeborg increasingly sees the firm as a burden, creating dependence and a lack of freedom. Although she is a respected and competent entrepreneur, as the story unfolds it is increasingly her son who stands for the new ideas for expansion and diversification. Ingeborg has, however, problems giving him space for the changes and she becomes successively a source of inertia and conservatism rather than change. Seeing change as a threat to what she knows, she feels that her son's entrepreneurial ideas become a threat not just to her position in the firm, but to her identity as business woman and matriarch. In other words, her identity struggle (Sveningsson and Alvesson 2003) increasingly becomes a central theme as the narrative unfolds, it has an enormous impact on the business and family alike, and it is a main reason for her fatal ending. Succession in the family business becomes an issue of life and death, literally.

4.5 Conclusion

This chapter has drawn on narrative fiction as a way to understand the subjective and emotional nature of personal and identity change in a family business context. We focused on a novel to find a narrative that could shed new light on this topic. Especially Czarniawska's (2000) notion on identity as an emergent process of construction is crucial because, as Ricoeur (1982) notes, it is the literary text's "power of refiguration" that makes this a challenging discourse. Indeed, De Cock and Land (2005, pp. 525–526) contend that it is "the difference in *function* between (social) scientific and literary texts that adumbrates a deeper equivalence." The power of both text types lies in their capacity for affecting changes. And it is literature's expression, creation, and production of that which the world is not that generates creativity, thus allowing and fostering further change.

Following Ricoeur's (1982, p. 142) notion of the relation between the text and the reader, fiction presents the reader with a "*proposed world* which [the reader] could inhabit and wherein [the reader] could project [his] own most possibilities." But the fictional narratives that the reader is exposed to can also potentially restructure the world of the reader; in other words, they have the power of refiguration. The novel used here draws on an unfamiliar setting: an independent woman as entrepreneur in early twentieth century Sweden, striving toward personal and professional independence through the business while also struggling with ways to hand it over, to make the readers react to the issues raised about enterprise and ownership and, implicitly although not explored by us in more detail, about gender roles and gender identities in a given historical context.

What further legitimizes narrative fiction when it comes to shedding new light on elements of identity and change in organizational settings is its capacity to highlight the anthropological equipment of human beings, whose lives are maintained by

their imagination (Iser 1993). As Down (2006) points out, identity is created through narratives. This stance gets further support in the literature on organizational identity, where for instance Sveningsson and Alvesson (2003) illustrate how a senior manager, referred to as "heroine," constructs her identity in relation to her organizational context. Building on McAdams (1993) and Dunne (1996), Sveningsson and Alvesson (2003) show how the senior manager's identity construction can be conceptualized through life *stories* taking place outside the realm of traditional management control (Gabriel 1995).

Our heroine, Ingeborg, faces momentous personal and professional challenges that, accordingly, prompt her to "abdicate from those stories into which she was born and which has defined her" (Parry and Doan 1994, p. 40). Her old story is, in other words, dysfunctional and does not offer answers to her new challenges. Here it is important to differentiate between facts and story; the challenge for Ingeborg is not to change her history, that is, the content and facts of life, but to change the form in which she has cast it in memory and imagination. In short, she fails to "re-story" her memory and imagination so that it "sufficiently represent[s her] lived experience" (White and Epston 1990, p. 14).

Thus, when it comes to grasping the narrative aspects of self-identity construction and the concept of roles and change, interpretive tools from literary analysis add to our understanding of the fictionality of identity building. Literature brings into focus the plasticity of human beings: the anthropological equipment of humans which is illustrated in literature is typified by a continuous patterning and re-patterning "of the culturally conditioned shapes human beings have assumed" (Iser 1993, p. xi). Also, given that literature allows for boundless patternings of human plasticity, what we hope has been shown in our reading of the novel is literature's ability to not only furnish understanding and tools but also its capacity for self-confrontation (Boland 1994).

4.5.1 Implications for Research and Practice

We think that one of the main contributions of this chapter is to explore the value of narrative fiction and to explore how narratives can serve as an inspiration for family business researchers. The novel presented in this chapter illustrates how (closely) personal and business identities are linked, how one cannot be understood without the other, and how this affects the family business, in both a positive and a negative sense. With this, narratives can help management and entrepreneurship scholars to understand better the dynamics of family businesses, in our case the identity dynamics in relation to the succession process. Although succession is the most studied topic in family business research (Sharma 2004), it is fair to say that we currently lack accounts of the depth and details that novels can give us. There is perhaps a particular dearth of research that concentrates on incumbent female business owners and managers in the succession processes. Thus, the interpretations offered in this chapter are relevant to illustrate the general potential of literary narratives to

shed new light on subjective, emotional, and value-based elements of entrepreneurship in family business contexts, in particular emphasizing its embeddedness beyond the family context, and the connections between family, business, and societal context.

The subtle processes, rooted in subjective experiences and emotions, that we have focused on in this chapter would have been very difficult to capture using traditional research methods and empirical data collection, including qualitative case study research. We therefore sought inspiration from concepts and methods in literary frameworks and used narrative fiction as our "field material." We believe in the power of narrative fiction to offer relevant insights that can further our scholarly understanding. Thus, we concur with Phillips (1995, p. 639):

> By examining important fictional sources we can gain a measure of insight into organizational reality that provides a valuable complement to traditional ethnographies and to more quantitative approaches to organization. While certainly not a replacement for more traditional methods of organizational research, fiction can provide insights into issues and topics that are relevant to real individuals in real organizations.

As our field of research becomes more interdisciplinary, fiction narratives and literary theory are an increasingly valued source of inspiration for both empirical and conceptual researchers in entrepreneurship and management (De Cock and Land 2005) and should, we argue with Czarniawska (2006), be further explored for generating new theoretical insights into change and identity in organizations. Put differently, just as naturally as we as management or entrepreneurship scholars turn to economics, psychology, or sociology for theoretical and methodological inspiration and support, we should turn to literary studies and even other disciplines within the area of arts and humanities.

One of the great advantages of exploring identity dynamics through fiction narratives is that the narratives may suggest alternative plots, narratives, and characterizations that are equally interesting, but much less visible than those revealed by scholars using traditional management research methods. Literary critic Peter Brooks points to what he calls "the anticipation of retrospection" something he says is "our chief tool in making sense of Narrative." In other words, "we read in a spirit of confidence, and also a state of dependence, that what remains to be read will restructure the provisional meanings of the already read" (Brooks 1985, pp. 23–25). In general, conventional scientific narratives in management research have a distinct representational function and are structured as something factual, which also governs the kind of data management research tends to obtain. However, it is here that literary texts operate differently. The literary text has the power to make use of "the anticipation of retrospection" to open readers, be it family business owners or family business researchers, to alternative plots and characterizations. For example, in the case of Ingeborg, the narrative manages to bring together quite disparate topics into one coherent story, including tacit rules, norms, and frameworks that govern female entrepreneurs' actions. It also highlights Ingeborg's highly personalized battle with changes in both the competitive and the institutional environment, particularly her refusal to embrace mass-consumption, and the constraining dominant view of her as a woman in business. In addition, the novel poses important leadership

questions through the Ingeborg character: "Why do I act in this way?" "What is the inner essence of my personal leadership?" "What are the ethical pillars of my decisions?"

In short, narratives can serve to make sense, explain, and represent events and actions as well as emotions in a fathomable, digestible, and manageable whole that is very difficult if we constrain ourselves to use conventional research methods and management theories. Thus, narratives make us aware of the taken-for-granted and allow for new and much deeper insights than case studies could give us. In the act of reading and through the shared emplotment between the text and the reader, the reader is prompted to "configure" the text (Ricoeur 1991, p. 26). When the reader reemplots the text and creatively generates new readings, the literary text goes beyond traditional scientific accounts as a fundamental method for enabling the passage of time in human experience to be understood and explained in new and enriching ways (Ricoeur 1984).

We believe that our chapter opens up interesting avenues for future research. For example, we note how Bergman adheres to conventions about how women "should" behave and be, thus creating another level of tension his heroine has to overcome. Bergman describes Ingeborg as a caring, nurturing mother fighting to keep her family and business together and healthy. We encourage future research to look deeper into this, as well as to explore how the writer's background intervenes with his stories of the heroine's identity formation and change. Taken from the short note on the author provided above this appears to play a role, but it is not a theme that we have focused on.

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Chapter 5
Love, Hate, and Desire: The Role of Emotional Messiness in the Business Family

Ethel Brundin and Pramodita Sharma

The bakery is in its second and third generations. While the father owns and manages it, his elder daughter, Sarah, is employed in it. She is a trained confectioner who has worked in the firm for 7 years. Sarah continues to upgrade her skills and has innovative ideas for renewal of her family's enterprise. She loves her work and the business and is willing to work real hard to make it prosper in the future. Her husband, Eric, works in the production and has been with the firm for 10 years. Sarah's younger sister, Anna, is still a student, and has no interest either in confectionary or in her family firm. Their father, John, who has been running the firm since 1980 when he took it over from his father, has declared his desire to retire in about 5 years. However, at this point he has not clarified to his family who his successor will be.

John encourages Sarah to attend a workshop series called "Take the next step" that is targeted for the next generation women in family firms. The workshop participants are encouraged to bring someone from the senior generation of their family enterprise to the last session. Sarah persuades her father to attend. During the session, the participants are encouraged to bring up issues they have been pondering about. Sarah brings up the succession issue. Out of the blue, as it seems, John says that:

> I am so glad that Sarah is taking this program. It will help her in her role as a partner to her husband.

(continued)

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Sarah thus learns that her father intends to pass the leadership of the firm to her husband. This revelation shatters her as she was priming herself to take over the leadership of her family firm. She says:

> When we got home, I got to know that my father and Eric had already discussed that he would take over. Right now, too many emotions are involved.

Sarah feels betrayed by her father and husband both of whom she loves dearly. It leads to severe quarrels in the family. At times, she admits that she hates everyone and everything. *She continues*:

> My life resembles an emotional roller coaster where I at times want to just leave everything and start anew somewhere else. At the same time I feel that there is no realistic alternative since I have this 'urge' to take over.
>
> Eventually, she decides to continue working for her family firm as she does not want to jeopardize its future or leave her family. Besides, she says, she is still hoping to realize some of her ideas in the company and finds it hard to leave something in which she has invested so much time and energy and something she desires.

5.1 Introduction

Family firms are emotional arenas (cf. Fineman 2000), perhaps even more so than nonfamily firms. In our case illustration above, emotions are at full play. Emotions refer to feelings and their "distinctive thoughts, psychological and biological states, and range of propensities to act" (Goleman 1995, p. 289), and we can identify Sarah's disappointment and how it comes through as a mixture of anger, hate, and love toward her father and husband. While she feels betrayed by the two men she loves for making a crucial decision without discussing with her, she is emotionally attached to both of them and to her family firm. After balancing the intensity of all emotions involved, she decides to stay in the firm.

Family firms are an arena where the best and worst of emotions can be witnessed at their most intense. Positive emotions among family members fuel the launch of new enterprises and help to sustain these firms during turbulent times (Chua et al. 2004). On the other hand, negative emotions can lead to bitter conflicts that can paralyze the most successful firms even leading to its expiration (Sharma 2004). However, besides knowing that family businesses are emotional arenas, we still know little about the role of emotions in this context. Cherniss (2010) has argued that ignoring the context in research on emotions has led to inconsistencies in research findings. In this chapter, we introduce and coin the term *emotional messiness* to describe the simultaneous occurrence of negative and positive emotions in family firms. This messiness is evident in simultaneous feelings of love, hate, and desire experienced by Sarah. What are the causes of emotional messiness?

And, what are its consequences – for individual members' willingness to pursue a career in or take over the leadership of a family firm; for family harmony; and for performance of the enterprise? The purpose of this chapter is to begin to address these questions.

We argue and demonstrate using illustrative examples that *psychological ownership* and *psychological contracts* are the primary causes of emotional messiness in the dual or hybrid identity context of family firms. Psychological ownership is a state of mind in which an individual feels possessive about a target such as a family firm (cf. Pierce et al. 2001). Family members often experience this sense of oneness with their family firm as their individual identity is closely intertwined with that of the firm (Tompkins 2010). While this possessiveness can lead to pride and a sense of responsibility, it can also lead to expectations of certain rights and privileges (Avey et al. 2009). In our opening vignette, Sarah experiences all of these feelings.

Psychological contract refers to a belief held by individuals regarding the reciprocal obligations and promise between them and their employer (Morrison and Robinson 1997). Family firm is an arena where a lot of expectations are built up between the family members. For example, Sarah's expectation that she will be rewarded by her father with the leadership of their family's bakery due to her abilities, hard work, commitment, loyalty, and motivation. These expectations are largely unspoken however, and as evidenced in this example, they may differ between the parties and may also be breached. Such breaches of unspoken psychological contracts lead to emotional messiness.

By itself, the emotional messiness carries neither a positive nor a negative valence. Instead it is the norm in family firms as these firms are characterized by hybrid identities of family and business, which inevitably leads to identity clashes and role conflicts (Albert and Whetten 1985; Tompkins 2010). Although by itself emotional messiness is a neutral concept, its consequences can be negative or positive. At the individual level, emotional messiness can have consequences for health or the physical dimension of the human capital causing exhaustion or burn-out (Grandey 2000; Härtel et al. 2002; Kruml and Geddes 2000; Schaubroeck and Jones 2000). Moreover, it may influence the propensity of next generation to pursue a career in their family firm (Hoy and Sharma 2010; Sharma and Irving 2005). At the family level, it can have implications for family harmony and cohesion (cf. Ashkanasy 2003). And, at the organizational level, emotional messiness can impact the familiness of the firm, leading to distinctive$^{(+)}$ or constrictive$^{(-)}$ familiness (Habbershon and Williams 1999). Familiness is the combination of resources in a family firm as a consequence of the interactions between family and the business. While distinctive familiness refers to enhanced stocks as a result of this interaction as compared to what the stocks might be without family's involvement in business, constrictive familiness reflects reduced stocks of resources (Habbershon and Williams 1999; Sharma 2008).

We further argue that the consequences of emotional messiness are mediated by the level of emotional intelligence (EI) or stability of the key stakeholders in the family enterprise.

Emotional stability is the degree to which an individual has appropriate control over emotions. This ability has been found to be critical for success in both professional and personal life (Johns and Saks 2005; Zhao and Seibert 2006). It has been argued that difference in competencies related to *EI or stability* is the reason why some individuals thrive while others flounder (Goleman 1995). EI is here defined as "the ability to perceive and express emotion, assimilate emotion in thought, understand and reason with emotion, and regulate emotion in the self and others" (Mayer et al. 2000, p. 396). As explained by Cherniss (2010), EI consists of "four basic abilities of perceiving, using, understanding, and managing emotion" (p. 114).

When the levels of EI are high, messy emotional situations such as the one in our case illustration can come to a peaceful resolution with next generation members deciding to pursue their careers in the family firm, maintain family harmony, and distinctive familiness leading to positive performance outcomes for the organization. On the other hand, if the prevailing levels of EI in the key stakeholders are low, the same concoction of emotions can lead to stress and health issues in individuals, ruptures in family harmony, and constrictive familiness spurring poor performance of the business.

The remainder of this chapter is organized as follows. The next section elaborates why emotions in family firms are particularly intense and messy, and how the literature has treated this concept thus far. The following section highlights the factors that influence emotional messiness in family firms – psychological ownership and psychological contracts. We illustrate this messiness with snapshots from Swedish family businesses where at least two generations are active in the firm. The ensuing section discusses the consequences of emotional messiness and the moderating influence of EI. It is argued that family firms in which the key stakeholders of the senior and junior generation are able to manage their emotions in an emotionally intelligent way are likely to transfer leadership and create value across generations enjoying higher levels of family harmony. The chapter closes with a discussion of implications of our proposed ideas for educators, practitioners, and researchers.

5.2 The Family Firm as an Emotional Arena

Family firms are a special case of an emotional arena since they are a hybrid identity organizational form (Albert and Whetten 1985; Tompkins 2010). That is, family firm is an "organization whose identity is composed of two or more types that would not normally be expected together … it considers itself (and others consider it) alternatively or even simultaneously, to be two different types of organizations" (Albert and Whetten 1985, p. 270). These two seemingly incompatible institutions are the family and the business. While family is a normative system allied to the values of traditions and altruism, business is a utilitarian system stressing profit maximization and self-interest (Foreman and Whetten 2002). Both practitioners and scholars have been interested in the dynamics that system overlaps bring in these hybrid organizations.

5.2.1 Practitioners' Interest in Hybrid Identity of Family Firms

Family business members constantly deal with competing identities. They play multiple roles on a regular basis leading to messiness of emotions. For example, a family business owner may simultaneously identify herself as a mother, a board member, and an owner. At certain crucial times, or during critical events, two or more of these identities may seem incompatible. The roles of being a board member and owner point toward the responsibilities emerging from the utilitarian system. At times these duties may call for the replacement of the CEO, who is her son, and place her in direct opposition to her duties as a mother, emanating from the normative system and calling for a more altruistic behavior. Here the loyalty to the firm clashes with the loyalty to the family, leading to conflicting emotions. As practitioners experience system overlaps and emotional messiness on a regular basis, they have prompted the development of the field of family business studies and fuel the continuous growth of consulting opportunities in this area.

5.2.2 Scholarly Interest in Hybrid Identity of Family Firms

Being practice driven in its founding and evolution (Sharma et al. 2007), family business studies have recognized the overlap between family and business since the inception of the field in early 1980s. However, scholarly thinking has evolved from viewing the systems overlap as negative and making attempts to find ways to most efficiently separate the two systems to avoid the emotional messiness (Levinson 1971; Whiteside and Brown 1991), to a realization that this system overlap is impossible to separate and it is best to turn focus on finding how to make the best use of it. This is evident in the illustrations used to capture the systems overlap; definitions, scales, and theories used to better understand family firms; and the multiple goals and performance dimensions that prevail in these enterprises.

Scholars have suggested different pictorial depictions to capture the hybrid nature of these entities. For example, Davis (1982) offered the overlapping three circles model to represent family, owners, and managers of a family firm. This model has been found extremely useful to highlight the multiple roles played by family and nonfamily members of a family firm. Hollander and Elman (1988) overlaid the two circles of family and business with a third concentric circle representing the environment. Gersick et al. (1997) captured the evolution over time in the family, business, and ownership dimensions. Sharma and Nordqvist (2008) provide a comprehensive review of all these efforts.

The overlap between family and business is also mirrored in the widely accepted behavioral definition of family firms (Chua et al. 1999) and reflected in recent definitions such as "a family business is a unique organization since it encompasses the overlap of a system based on rational, economic principles and a system organized and based on emotions" (Kets de Vries et al. 2007, p. 26). Measurement scales have been developed to capture the family involvement in business (e.g., Astrachan et al. 2002;

Holt et al. 2010). The frequent use of agency and stewardship theories in the literature signals attempts to capture the hybrid nature of these firms (Chrisman et al. 2010; Miller and Le-Breton Miller 2006) where emotions are part of the game.

The different subsystems are also reflected in the family business logic where family business owners are long-term oriented encompassing multiple ownership goals including values and traditions while simultaneously aiming for competitive advantages (Miller and Le-Breton Miller 2006; Brundin et al. 2008). A longitudinal case study spanning 70 years history of a family business in the refrigerated food logistics industry indicates the role of family as the "ultimate governor" at critical fork-in-the road decisions made by the company (Tompkins 2010). This business went through three generational successions, and evolved from a one-truck produce hauler to its current position as the USA's sixth largest cold food transport company with 17 warehouses and 1,550 employees. In a similar vein, family firms have been found to make decisions to protect their socio-emotional wealth at times even at the risk of performance hazards (Gómez-Mejía et al. 2007). Another research has indicated that family enterprises that attend to both business and family-related goals outperform others that only singularly focus on family or business-related goals (Basco and Rodriguez 2009).

5.2.3 Emotions and the Family Firm

During the last decade, emotions have been made visible as an important part of research on family enterprising. Examples are Björnberg and Nicholson's (2008) study on the next generation highlighting that the emotional ownership is culturally dependent and is stronger in the Latin American parts of the world. In another study, Brundin et al. (2008) point out the emotional bonding of family members to the firm as part of the family ownership logic. In describing human capital of a family enterprise as "the knowledge, technical skills, emotional strength or carrying capability and intellectual capital of family and non family members," Sharma (2008, p. 974) incorporates the role of emotions in the human capital value of the firm. Cramton (1993) goes as far to claim that the emotional climate, rather than the entrepreneurial capacity, is the decisive factor for enterprising activities. Researchers have also made attempts to theorize how family business owners assess the emotional value of their firm (Astrachan and Jaskiewicz 2008; Tàpies and Ward 2008; Zelleweger and Astrachan 2008).

Turning to the early literature on family businesses, emotions were often regarded as negative and something that disturbed the balance of the business part. The family was regarded as a separate entity form the business and the two entities had their own structure with separate goals and tasks (Taguiri and Davis 1996). A customary view was that the business represented the rational and that emotions, being irrational, had to be separated from the profit-making business (Whiteside and Brown 1991). However, our brief overview of the literature of the family firm as a special case of an emotional arena suggests that the thinking in the field has moved from a

stage where emotions were considered best repressed in family firms, to being acknowledged as playing a significant role in these enterprises. Still, there is much to do. In our knowledge, no previous research has been directed toward developing an understanding of the factors that cause the emotional messiness in these firms. We turn to this task next.

5.3 Emotional Messiness and Its Causes

In the previous section, we argued that the overlap of a normative and utilitarian system in family firms provides the backdrop for simultaneous experience of positive and negative emotions or emotional messiness. Sociologists have long suggested the integral role of context in experienced and expressed emotions. For example, Kemper (1987) suggests that the emotions a person displays are a function of underlying norms and values in a particular organization, general societal norms, sex, age, and profession.

In family firms, because of the intertwinement of family and business, and the prevailing norms regarding inter- and intragenerational roles and responsibilities (Sharma and Manikutty 2005), it is plausible that emotions may be controlled or masked, out of a wish not to hurt someone else in the family. It is equally plausible for the close family relationships to make it easier for emotional outbursts among family members in the business (sometimes with a scared audience of nonfamily members). Thus, we are likely to see a wider variation and more intensity of emotions in the context of family firms.

Research on emotions in nonfamily contexts suggests that when individuals display emotions they do not experience, or disguise emotions they actually feel they are engaged in surface acting (Hochschild 1983; Rafaeli and Sutton 1987) and experience emotional dissonance (Middleton 1989). Continuous surface acting can cause emotional exhaustion (Abraham 1998), stress (Grandey 2003), and even emotional deviance, that is, display of socially unacceptable behaviors (Hochschild 1983). On the other hand, the alignment of experienced and displayed emotions, labeled as deep acting or emotional authenticity (Hochschild 1983; Waddington 2005), over time leads to emotional harmony and helps building emotional energy that enables transformational leadership in organizations (Brundin and Melin 2006; Hochschild 1983; Yukl 1989).

Due to the integration of family and business systems in family firms, these organizational forms are the more likely contexts for high emotional intensity and wider breadth of experienced and displayed emotions. Both emotional dissonance and authenticity are likely to coexist in family firms. For instance, in our introductory case, Sarah simultaneously experiences the contradictory emotions of love, hate, and desire, and does not know exactly how to deal with such conflicting emotions. She loves her father at the same time she hates his decision. She loves her husband but at the same time hates what he has done. In addition, she is disappointed at not being perceived as the next natural leader, despite her aspirations to lead her

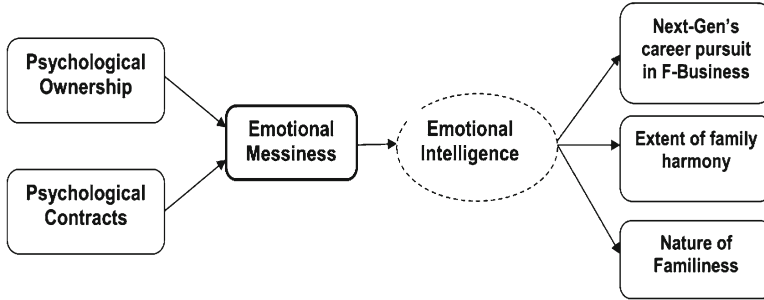

Fig. 5.1 Emotional messiness: antecedents and consequences

family's enterprise. We believe that the concepts of "psychological ownership" and "psychological contracts" help explain why such emotional messiness occurs in family firms (Fig. 5.1). Each of these concepts is elaborated below with an illustration and a proposition. The focus of our illustrations is succession in family firms as this critical event is most likely to bring forth emotional messiness.

5.3.1 Psychological Ownership

Psychological ownership – a feeling of oneness with a material or nonmaterial target – is said to be part of human condition that has significant emotional, behavioral, and psychological consequences (Pierce et al. 2001). Possessiveness is the primary distinguishing element of psychological ownership (Avey et al. 2009). Control and intimate knowledge of the focal target, combined with investing one's self in the target, explain how psychological ownership comes into being (Pierce et al. 2001). Psychological ownership satisfies an individual's need to belong and be in control, creating feelings of self-efficacy and satisfaction (Pierce et al. 2001; Avey et al. 2009). Possessions, material, or immaterial, represent symbols through which individuals identify themselves.

Both founders and next generations often regard family business as "theirs" as much as their thoughts, words, and emotions (cf. Marx 1978; James 1980/1890). The strong feeling of being "one" with the family business indicates a powerful relationship between the business and individuals' identity as the business becomes an extension of "self" (Belk 1988). The business defines meaning in life, signaling independence and success. It brings joy, pride, and loyalty in addition to feelings of accountability, responsibility, and sense of burden sharing (Avey et al. 2009; Pierce et al. 2001).

It is because of the strong identification with the firm, that family members are often unwilling to depart from or sell the firm (Lansberg 1988; Salvato et al. 2010). Harris and Sutton (1986) point out that leaving an organization, such as the family firm, results in the loss of a major social arena where the family member has spent

most of his or her time. It is an emotionally charged experience causing "mourning, anger, depression, sorrow and fear of the unknown, the future and the ambiguous present" (Harris and Sutton 1986, p. 11). To leave the family business, either by refraining from future engagement in it or selling one's shares would signal insufficiency and lack of capability and violate the family business member's identity. Such events can be linked to decreased self-esteem (Shamir 1986) and are described as being similarly traumatic as "losing a leg" (Swinburne 1981). In such instances, family members' often need to cope with the impeding loss of the firm and the transition to a new identity (Salvato et al. 2010).

Family members are generally a small group of individuals, while family enterprise is one entity. Thus, multiple members of the family such as Sarah, her father, and her husband may experience psychological ownership of the firm and be equally possessive about it. However, in most enterprises especially the small and medium-sized ones, there are limited opportunities for top management positions. Family members often have to jockey against their loved ones for their own career progression in an entity which all contenders are possessive about and feel a psychological ownership. For example, while Sarah claims she has invested a lot in the firm and does not want to leave it, perhaps her husband feels in a similar way. Each believes in his/her capabilities to lead the firm. Both are likely concerned about the potential loss of their individual identity and place in the firm, causing emotional messiness as experienced by Sarah.

The following quote from a fourth generation family member who just took over the leadership of his firm from his father bears witness to the psychological ownership and the seemingly mixed and contradictory emotions in family firms:

> I sit with something in my lap that I am involuntarily tied to. I didn't have any choice, even if I used to have other plans. If I could sell the company I would do so directly… Well, no, it's been run in three generations prior to me, and it has always been well managed. It's just that I have worked that hard that it's dangerous. The danger is that I identify myself so much with the company that I start to believe that it's a part of me.

The quote indicates the intensity of psychological ownership and the messiness of emotions experienced by the son. On the one hand, he is proud of his family's enterprise, while on the other hand, he feels he might be "too involved" and mourns his inability to pursue the career he desired. Signs of obligation-based normative commitment and opportunity cost-based continuous commitment seem to be emerging (Sharma and Irving 2005) causing a plethora of conflicting emotions. Based on this discussion and examples, we propose that:

P1. Psychological ownership leads to emotional messiness in family firms.

5.3.2 Psychological Contracts

Rousseau (1995) explains that a psychological contract is an individual's belief regarding terms of an exchange and reciprocal obligations between the individual and the firm he or she works in. These contracts are embedded in social processes

where words, actions, signals, and symbols trigger the development of informal contracts between people. Although there is no explicit written contract, assumptions to meet and fulfill certain expectations are built through daily interactions and communications (Guest 1998). The underlying assumption in a psychological contract is that one individual assumes that both parties will fulfill certain expectations.

Psychological contracts are indefinable, incomplete, and dynamic as they continuously evolve based on each social interaction. Therefore, their content and the expectations between different parties can vary. If expectations are not met, a breach or violation of the psychological contract occurs (Zhao et al. 2007). When an individual perceives such a breach frustration, anger, and disappointment follow leading to feelings of violation (Morrison and Robinson 1997; Zhao et al. 2007). Mistrust and disloyalty may creep in leading to possible skepticism, cynicism, or hostility toward the other person or the organization (Zhao et al. 2007).

Psychological contracts can be transactional or relational (Rousseau 2004). While transactional contracts are short lived and focus on tangible exchanges such as salary expectations, relational contracts extend over longer periods of time and emphasize social exchanges and interdependence. Hybrid psychological contracts combine the open-ended time frame and mutual concern of relational agreements, with the performance demands and renegotiation of transactional contracts (Rousseau 2004, p. 122).

In a family business setting, with relationships that extend over long term and in a variety of social interactions, the intensity of the contract becomes deeper and broader (Guest 1998). Mutual expectations and obligations are built up over the years and are the key point of reference for both contracting parties (Zhao et al. 2007). Disagreements and misunderstanding may brew against the backdrop of a tussle between obligations and voluntary choice (cf. Rousseau 2004). Given the interactions between the family and business systems (Sharma and Nordqvist 2008), a breach of psychological contract in one system is likely to cause ripple effects in both systems. Trust may be lost, relationships destroyed, and emotional messiness experienced.

In business families, the buildup of psychological contracts can start right from the birth of a child. Family traditions and norms guide the expectations about management, ownership, and control of the family business (Sharma and Manikutty 2005). For example, in families with the norm of primogeniture, the eldest son is often treated as the heir right from birth. He may be actively involved in the business through participation in meetings and part-time jobs, and subtle processes such as passive listening to business conversations at home or in mom's or dad's office. But, in other families, like Sarah's it may be a daughter or another child who is part of such processes. The result is a buildup of expectations and obligations, amidst feelings of responsibility, love, and accountability. At times, the burden of the firm can weigh down the joys of the pursuit of a productive career outside the firm, but in other instances the younger family member may be mentally preparing to take over the leadership of the firm. Emotional messiness occurs.

In our opening illustration, Sarah has built up a psychological contract with her father leading to the assumption that she will take over the business. To her, this is

indicated by his suggestion of taking the workshop series for next generation leaders and other courses to hone her abilities as a baker. With his statement disclosing her husband may take over as the next leader of their firm, Sarah feels the breached psychological contract between her and her father. Her trust in her father and husband is challenged. However, in the end, the loyalty to the firm and the family takes over.

Below is another illustration indicating the buildup of psychological contracts between the fifth generation owner and his predecessors, as well as his contract with his son which ends with a breach from the son's perspective:

The father expresses his strong feelings for the firm:

> As an owner in the fifth generation this is not like any ordinary job; it's an inheritance, a pride, and something that I strongly feel that I have to continue with.

The feelings of obligations toward the previous generations also build up expectations for his two sons to take over. However, these expectations are not met according to one of the sons:

> I was absolutely certain that I would be the one to take over the business. My elder brother became a threat when he joined the firm some years ago. But he doesn't want to take over. I have worked here since I graduated. I know this firm. I'm interested in our production and I have the adequate education. Then, at a dinner at the Trade Fair in Frankfurt, my daddy tells me that he is intending to appoint an external CEO. He says I don't know what a responsible owner is.

The younger son is disappointed and angry with his father because of the breach of his psychological contract of being appointed the next leader of their family firm. The father is probably equally disappointed in his son for not acting as a responsible owner and may feel that the son has breached his part of the unspoken deal. The breach of these psychological contracts leads to emotional messiness leading the son to quit the family firm and buy his own company. The other son is also affected by the generational struggles experiencing strong feelings of abandonment and disloyalty from both his brother and his father affecting his own commitment to the firm. As the father nurtured an unstated desire that one of his sons take over the business, he too feels the violation of psychological contracts. The emotional messiness is experienced by all three men leading to our second proposition:

P2. Psychological contracts lead to emotional messiness in family firms.

5.4 Consequences of Emotional Messiness

Not only do the systems overlap in family firms cause emotional messiness, it also creates a fluid movement between individuals, family, and the business in terms of the affects of the emotional messiness. While emotions are experienced within an individual, there may be significant variation in how each individual handles them. Often there are acceptable norms of emotional expression in a family that flows into

the firm due to the hybrid identity of this organizational form. Depending on the acceptable social norms, individuals' emotional messiness may be transmitted through surface or deep acting. When there is an alignment in experienced and expressed emotions, behaviors take the form of "deep acting." Such alignment, in turn, leads to building of emotional reservoirs in individuals, families, and family firms. On the other hand, a gap or dissonance between experienced and expressed emotion, referred to as surface acting, causes stress at individual, family, or enterprise levels.

One might argue that in the multidimensional long-term relationships in a business family or their firm, a culture of deep acting where there is no dissonance between expressed and experienced emotions should prevail. However, at least two influencing factors play a role in the culture that takes root. First, the familial norms regarding intergenerational and intragenerational behaviors may not allow for displays of emotional conflicts and disagreements (Sharma and Manikutty 2005). In such contexts, it may be taboo to express oneself openly and conflict avoidance is a norm. The picture of a cohesive family and harmonious relationships in the firm is favored over any expression of disagreements or distress. Surface acting by key stakeholders follows. In practice, however, this seemingly smooth surface may be a fragile coating over building emotional mines that are likely to detonate sooner or later. In other family firms, it is *comme-il-faut* to explicitly express experienced emotions, even if it leads to quarrels and conflicts.

Second, the institution of "family" itself may jeopardize deep acting. For example, the individual who experiences emotional messiness may not want to hurt other family members by displaying his or her authentic emotions. In other cases, the intensity of bonding within the family itself may be disguised or ambiguous. Sarah's father does not want to spell out who his successor will be, though he seems to be signaling both his daughter and his son-in-law to prepare to step into his shoes. Another common example is the father who says to his children that they can do whatever they want in life, while simultaneously remarking how he would be very happy if they chose to stay on and take over the firm.

Thus, emotional messiness has the potential of influencing whether the next generation ends up pursuing a career in the family business or not, the extent of harmony that prevails in the family, and whether the family involvement in business augments or diminishes the overall stocks of resources available to the firm. But, emotional messiness prevails in all family firms due to the hybrid nature of these firms. Why then, do we find variance in terms of next generation's desire to pursue careers in their family enterprises (Sharma and Irving 2005), or nature of relationships within the family, or the business enterprise.

Following the literature on EI (e.g., Cherniss 2010; Goleman et al. 2002; Mayer and Salovey 1997), we argue that while emotional messiness is a norm in family firms, the observed differences in outcomes are due to the variations in levels of EI of key stakeholders in the family.

When family members have a finely developed ability to accurately perceive, identify, understand, and most importantly manage emotions, positive outcomes are

experienced despite the norm of emotional messiness in family firms. Management of emotions has perhaps most aptly been described by Aristotle:

> Anyone can be angry – that is easy. But to be angry with the right person, to the right degree, at the right time, for the right purpose, and in the right way, this is not easy (Aristotle as cited by Goleman et al. 2002, p. 80).

Viewed this way, it would seem that EI is at least partly a skill and something that can be learned by an individual. While it remains for future research to empirically understand whether EI is constant across ones' life (cf. Zhao and Seibert 2006) or a skill that can be acquired and improved with practice, or partially both, it appears that EI moderates whether messiness of emotions leads to positive or negative outcomes in family firm. If an individual family member has low EI in facing an emotionally messy situation, the risk of negative implications is higher. As individuals' levels of EI may vary within the family, how each deals with a similarly emotionally messy situation is likely to vary, causing ruptures in family harmony or negative effects of family's involvement in business. We thus propose:

P3. EI mediates the relationship between emotional messiness and next generation's propensity to pursue a career in their family firm.
P4. EI mediates the relationship between emotional messiness and the extent of family harmony.
P5. EI mediates the relationship between emotional messiness and the nature of familiness in a family firm.

5.5 Conclusion

In this chapter we introduce the concept of emotional messiness in family firms, and discuss its causal factors and implications. The key arguments that we have developed in this chapter in order to coin the concept of emotional messiness are as follows. First, while emotions play an important role in all lives because of the hybrid identity nature of family firms, individuals simultaneously experience positive and negative emotions (such as love, hate, desire). Labeling this mix as emotional messiness, we argue for the presence of two causal factors: (1) psychological ownership and (2) psychological contracts. By itself, emotional messiness is suggested to be a neutral construct. However, its implications for individual, family, and the enterprise may be negative or positive, depending on the level of EI that prevails among key stakeholders in the family enterprise.

Theoretically, we add a dimension to the family business literature that has either neglected family firms as emotional arenas or regarded emotions as dysfunctional in this context. By introducing the concept of emotional messiness and elaborating on its antecedent and consequences, we hope to have provided a first attempt at understanding the role of emotions in the context of family firms. Although we use illustrations to develop our ideas, the proposed conceptual model should be subjected to the rigors of empirical research to further refine the ideas and assess their validity.

However, methodologically, emotional messiness is hard to capture by testing hypotheses only and we therefore urge a future research agenda to also include qualitative in depth studies.

As scholars undertake the task of "testing" these ideas, practitioners working in or with family firms can benefit from thinking about emotional messiness as a norm in hybrid identity organizational forms such as family enterprises. By itself, emotional messiness is neither a good nor a bad thing. It is rather the tension among emotions that leads to positive or negative consequences for individuals, families, and enterprises. The nature of outcomes experienced by a firm will vary based on the levels of EI of key stakeholders in the family firm. It is worth time and effort to make family members aware of the role of emotional messiness and to sensitize them to how they perceive, identify, understand, and manage emotions in their daily lives.

Applying our introductory illustration to these proposed ideas, Sarah finds herself in an emotionally charged situation when her father vocalizes his intention to pass the leadership of their bakery to his son-in-law (Sarah's husband). Having invested a long time, energy, and interest in the firm, she feels a strong psychological ownership of it. After all, it is her blood family that owns the business and it is she and her ancestors who have built it up. Over the years, she felt that her father encouraged her to work in the firm and develop skills that would be beneficial for the firm. These signals lead her to believe that he was training her to take over the leadership of the firm from him. This psychological contract continued to be strengthened with each related social interaction between herself and her father.

Then, when the declaration came, it hits Sarah hard. She finds herself engulfed in multiple contradictory emotions as she identifies strongly with the firm which she loves and desires and the implicit contract that has been breached by her own father, favoring her husband over her. While she engages in surface acting when in public, she mentions the "severe quarrels" that ensued and shows her emotional authenticity. Eventually, she continues to work for the family bakery. However, whether her surface or deep acting will take over and lead to emotional exhaustion or emotional harmony only time will tell.

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Chapter 6
What's Love Got to Do with It? Marriage and Divorce in Family Business

Patricia M. Cole and Kit Johnson

6.1 Introduction

Marriage, divorce, and couple relationships are some of the most important issues in family business. Although these topics have been touched on in family business research, there has been little attention given to specific theories. Therefore, the purpose of this chapter is to generate ideas for how theories of marriage, divorce, and couple relationships may inform future family business research. These ideas are taken from the findings of the authors' research on family business couples as well as from theories from leading experts on marriage, divorce, and relationships. A two-part case study will be used for illustration of the presented ideas. Case Study, Part One involves a couple who is deciding whether or not to go into business together. Case Study, Part Two fast forwards this couple 20 years later as they contemplate divorce. A review of the literature on family business couples will set the context for the cases, presenting theories and future research ideas.

6.2 Case Study: Part One

John Cannon and Marta Fuentes are a newlywed married couple in their late 20s who live in a middle class suburb outside of Boston, MA. They are interested in starting a business together. As they plan for their future, which includes children, owning their own business seems a better way to create their desired lifestyle.

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6.2.1 Education and Work History

Marta left Venezuela in her early 20s to work on her MBA in the United States and has been here for 7 years. John grew up in New York City and attended college in England; he has an undergraduate degree in European history. They were hired after completing their studies to work in different software companies. Marta was thrilled to get a job in marketing that fit her skills and interests. John could not find many job openings with his degree. Finally, he received a job offer in sales where he discovered he had a real aptitude for this area. The couple met while attending an initial planning meeting for upper-level management when their software companies were considering a merger. By the end of the merger talks, they had fallen in love and decided to marry. They had each considered eventually leaving the corporate world, even before meeting each other. After their wedding, they began to seriously consider starting a business together. This dream was expedited by John's recent lay off from the newly merged company.

6.2.2 Business Idea

John and Marta were initially attracted to the idea of owning their own business because they were disillusioned with the corporate world and wanted more control over their destiny. Additionally, Marta grew up in an entrepreneurial family and believed this joint venture was very doable. They found a retail business that sells navigational equipment for people interested in sailing. The primary item would be maps, but there would also be a retail section for books, clothing, and other small items needed for sailing. This plan made sense to them for three reasons: First, they identified a niche for this type of business in the New England area; second, Marta's father started a similar business in Venezuela and could give them business advice; third, they both loved sailing, so they could mix business with a hobby. Their financial resources were sound as John received a good severance package, and Marta inherited money from her mother. Together, they had enough liquidity to back a start-up venture.

6.2.3 Family Background

Marta grew up in Venezuela in a close family of parents and four younger siblings, two sisters and one brother. When she came to the United States, she missed her family very much. However, after the death of her mother 3 years ago, her father and brother moved to the United States and are presently living with John and Marta. Her sisters are married and come to visit often with their spouses and children. As the oldest child in the family, Marta has felt responsible for her father and brother

and takes care of their day-to-day needs in addition to her responsibilities to her work and to her new husband.

John grew up in a family with parents who got divorced when he was 12 years old. He and his younger sister lived with his mother and rarely saw their father. John had a distant relationship with his father, and his schooling in England plus his demanding job left him little time for his mother and sister. Presently, he sees them occasionally, but felt more connected to Marta's family than his own.

This couple wanted to embark on a copreneurial venture. The word copreneur is a combination of the words couple and entrepreneur or couples who start a business together. To understand this unique business relationship, the following information will provide a context for copreneurship, including how it originated, what the challenges are, and what it takes to be successful.

6.3 Review of the Literature on Married Family Business Couples

Relevant literature concerning business couples emerged in the 1980s, and the term "copreneur" was developed by Barnett and Barnett (1988). Jaffe (1990) and Nelton (1986), along with Barnett and Barnett, wrote of the unique characteristics and possible hazards of business couples, that of combining a personal, romantic relationship of husband/wife with a practical, work-related one of business partner/business partner or coowners; often the term dual relationship is used to describe a relationship in which several roles are grouped together. Many wrote about this dual relationship including Marshack (1993, 1994, 1998), Hilburt-Davis (1994), Hilburt-Davis and Dyer (2003), Hoover and Hoover (1999), Jaffe (1990), James and James (1997), Kadis and McClendon (1991), and Poza and Messer (2001). They suggested that the business demands could overwhelm the couple relationship and lead to divorce or separation. In an attempt to understand how copreneurs managed this dilemma, Cole (1993, 1997) studied couples who preserved their marriage by creating context markers to separate the working relationship context from personal relationship context. For example, one couple's marker was a hotel between work and home. On the way to work, they didn't talk about work until reaching the hotel, and when they rode home, their business talk ended after passing the hotel. These behaviors may not be unique to copreneurs as other family business members might engage this strategy as a way to detach from the business at the end of the day. However, context markers appeared to be particularly helpful to those in an intimate relationship as well as a business relationship.

Others writing about copreneurs discussed gender issues. Ponthieu and Caudill (1993) argued that men tended to be the boss even though the couples were equal partners, while Cole (1993, 1997) found that women usually had as much work authority as they wanted. Gender was a social construct and family businesses did not appear to adhere to a specific role that all women had to embrace. Rather roles seemed based more on skill sets than on sex. Gender differences and conflict were

discussed by Larsen (2006) and Danes and Olson (2003). Larson studied the harness racing industry and found that tensions became so intense among the sexes that the couple chose separate work sites. Danes and Morgan (2004) studied tension and conflict and concluded that the more the woman was involved in the business, the higher the degree of conflict.

Successful business couples were studied with different results. Fitzgerald and Muske (2002); Clim 2006) had a more positive spin on copreneurship and found that these couples, if older and more educated, had more intimacy in their relationship than a couple with only one of them working in the family business. Ponthieu and Caudill (1993) identified equality, independence, trust, and confidence as key factors for successful decision making and responsibility, while Tompson and Tompson (2000) found the necessary characteristics included managing work and family conflict, role priorities, and role clarity. The authors of this chapter conducted a research project on married or cohabitating business couples in 2008, and the findings of what make successful business couples are discussed in the following section. Relevant theories of marriage by Gottman (1994, 1995, 1999, 2000) and Coontz (2005) will also be discussed and applied to couples in family businesses.

6.3.1 Successful Business Couples

Johnson and Cole (2008) conducted a grounded theory qualitative study on business couples or copreneurs who were married, cohabitating, heterosexual, and homosexual. They found that, regardless of a couple's sexual orientation or legal attachment, a successful combination of marriage and business relationships had characteristics in common. These characteristics are listed below and illustrated by a vignette from the case; possible research ideas are also presented.

- Successful business couple ventures began with a dream, usually with one of the dyad, and the partner joined in and supported this dream (Johnson and Cole 2008).

In the couple case, Marta had a dream of the business from her father's work. John liked the idea as he was interested in boats and sailing. He saw himself as supporting Marta's vision but also being an equal partner with her.

- Successful business couples identified clear role descriptions of individual strengths and job responsibilities (Johnson and Cole 2008). Sometimes they decided this in advance, and in other situations, their roles evolved or changed depending on the development of the business.

John and Marta had some idea of who should do what, based on their skills in the corporate world. John planned to handle sales, and Marta wanted to cover marketing and personnel. They could not decide who should handle finances, so they thought it was possible to share the responsibility. Ideally, one person should be responsible for finances and check with the other on a regular basis.

- Successful business couples carved out time to protect their romantic relationship from being overwhelmed by the business relationship (Johnson and Cole 2008).

They knew they could work together, but needed to be able to play or have free time together, as well as create boundaries between work and home.

John and Marta didn't think protecting their romantic relationship would be a problem as they believed they had a strong marriage and mutual interests, including golfing and sailing. Ideally, they should make more definite "together" time rather than assuming this will naturally happen. For example, when they are golfing, they might set limits on how much they discuss business.

- Successful business couples had common business skills and attitudes (Johnson and Cole 2008). These included knowledge of required tasks, knowledge of the product, pride in their product, passion for work, strong work ethic, positive attitude, high comfort with risk, and patience for the long haul.

As far as knowledge of required tasks and knowledge of the product, John and Marta felt that Marta's father would help them as the business developed. Their previous work history confirmed their strong work ethic and positive attitude. However, they had never been in an ownership situation to test their work pride and passion or their comfort with risk and patience for the long haul. It was important for John and Marta to understand that it is normative not to possess all of these characteristics, so challenges will arise; however, these issues need to be addressed.

- Successful business couples also had common relationship attitudes toward each other (Johnson and Cole 2008). These included mutual respect, friendship, trust, commitment, good communication skills, good coping skills to deal with adversity, responsiveness to each other's needs, and willingness to suppress their own needs in order to support their partners' needs.

John and Marta agreed that they had the first four criteria. However, the last four items presented some challenges. They had been seeing a therapist to help them develop better communication skills and resolve conflict more effectively, so they were hopeful that improvement in these areas would happen over time. They also thought that the insights learned in therapy would help them be more responsive to each other and be willing to suppress their own needs in order to support their partners' needs. Ideally, couples needed to have all of the criteria in place or should be working on strengthening them.

6.3.2 Assessment

This couple seemed to have sufficient strengths in the necessary characteristics to start a business together. The main "red flag" was in their personal attitudes, but they were attending marriage counseling to work on these issues. A family business counselor skilled in the emotional dynamics of family business might have also been helpful to them. Their problems could be exacerbated by the couple not defining boundaries to protect their marriage from becoming marginalized by their work demands. Some potential challenges existed in their work-related attitudes and attributes; however,

they had never been in an ownership position to test all of these. Also, they would eventually have to resolve the question of who will shoulder the main responsibility for finances. If not, they may have stepped on each other's turf or let things fall between the cracks as they assumed the other person was attending to some financial detail.

6.3.3 Research Suggestions

The biggest limitation of Johnson and Cole (2008) study of successful copreneurs was the lack of diversity in the sample. Although cohabiting, Latin, and gay couples were included, the research findings were based on a qualitative study with business couples in the United States. Therefore, the findings could be used for a comparative study with other countries, such as the ten regional clusters worldwide identified in the Case Project and applied to a family business research project by Gubta and Levinson (2010). Some research questions worthy of exploration might be:

1. How does culture impact the success of business couples?
2. How are the criteria for successful copreneurs similar and/or different from one culture or country to another?
3. Are some cultures more supportive than others of couples in business together? Does being a gay couple and/or cohabiting couple make a difference in this support? If so, how?
4. How are gender role expectations negotiated by multicultural business couples?
5. What is the correlation between success in copreneurial businesses and prior business experiences?

Additionally, researchers could use the findings of Johnson and Cole (2008) study to explore each criterion in depth. The criteria are repeated with some questions to consider:

One has a dream and the other supports it: What is the difference between couples who are equally excited about their joint business venture and those relationships where one person has the "dream" and the other supports it? How does gender affect the role of dreamer and supporter? What is the relationship between creating the business dream and sustaining the business dream? Does support of the business dream predict satisfaction in the intimate description?

Clear job descriptions: How do couples decide on job descriptions in the business? How does gender affect job descriptions, especially who handles finances? Do couples ever have an area of the business that is equally shared by both? If so, how is this managed? How often do explicit job descriptions occur in new copreneurial ventures? Do specific skill sets predict successful business outcomes?

Boundaries between love and work: How do couples negotiate boundaries to protect their romantic relationship from being overwhelmed by work? How does gender impact these decisions and who takes responsibility for enforcing them? What

happens when successful copreneurs do not have strong boundaries? What is the relationship between weak personal boundaries and weak business boundaries? Does the presence of boundaries predict couples' ability to run a business effectively?

Business skills and attitudes (knowledge of required tasks, knowledge of the product, pride in their product, passion for work, strong work ethic, positive attitude, high comfort with risk, and patience for the long haul): How does gender affect work aptitudes and attitudes? Which ones are the most important to have? Is it necessary for both individuals to have all of them, or can the couple complement each other? Are high tolerance for risk and patience for the long haul the most important aptitudes for copreneurial survival? How do the attitudes and attributes of copreneurs compare to entrepreneurs? Do variations in business work ethics produce a change in intimate partners' relationships?

Personal attitudes (mutual respect, friendship, trust, commitment, good communication skills, good coping skills to deal with adversity, responsiveness to each other's needs, and willingness to suppress own needs in order to support their partners' needs): What is the difference between having these attitudes at work and at home? Do these attitudes change the longer the couple works together? Which are the most important attitudes to have? What is the relationship between commitment to one's partner and commitment to one's business? Does variation in mutual respect produce changes in the ability to suppress individual needs and support a partner's needs?

6.4 Marriage and Couple Relationships

The theories that evolve from business couple research can be augmented by other theories of marriage and nonbusiness couple relationships from experts in the behavioral and social science disciplines. Several of these authors and their ideas are presented with illustrations from the case example. Also, suggestions for applying the theories to family business research are included.

6.4.1 Theories of Marriage: Gottman

John Gottman's research (1994, 1995, 1999, 2000) centered on couple stability. Through scientific direct observation, he predicted which couples would survive separation or divorce. In the *Seven Principles for Making Marriage Work* (Gottman 2000), he stated:

> Happily married couples aren't smarter, richer, or more psychologically astute than others. But in their day-to-day lives, they have hit upon a dynamic that keeps their negative thoughts and feelings about each other (which all couples have) from overwhelming their positive ones. They have what I call an emotionally intelligent marriage (p. 3).

According to Gottman (2000), these couples possess the following seven principles. John and Marta are used as examples of how these are applicable to couples in business. Suggestions for qualitative and quantitative studies are provided for each of Gottman's principles.

They enhance their love maps. Gottman described love maps as the part of the brain that stores information about a partner's life, so they are intimately familiar with each other's world, including goals in life, stresses, fears, joys, likes, and dislikes. These could be anything from small habits to deep philosophies, but they require a level of observation and a commitment to knowing and pleasing the other. For example, if John and Marta have a love map, Marta would be able to order supplies for the office and know what kind of pens John prefers. As for John, he would know that Marta does not want to confront her father for being too intrusive in the business as he is too fragile after the death of his wife. Qualitative question: How do couples experience the phenomena of a love map? Quantitative question: Does proximity in the work environment create an accurate love map?

They nurture their fondness and admiration. This means that in spite of the problems in their relationship, couples have kept some feeling that their partner is worthy of being respected and liked. For example, if John and Marta disagree on who is responsible for losing an important client, they would censor their language out of respect for each other. In other words, they would know what words would really wound the other and would choose to stop before reaching that level. Qualitative question: How do copreneurs create mutual admiration? Quantitative question: Does secure attachment style predict the ability to sustain mutual respect?

They turn toward each other instead of away. Gottman believed that what may appear to an outsider as hum drum chit chat between a couple eating lunch actually means they are connecting. For example, if the latest financial report shows significant losses, John and Marta would both not get depressed and stay in their separate offices. Instead, they might take a long lunch to discuss solutions and make plans to do more exercise together to relieve the stress. Qualitative question: How do business couples rely on each other? Quantitative question: What is the relationship between resiliency in the partnership and the ability to find constructive solutions to stress?

They allow their partners to influence them. This includes shared power and decision making. For example, although John is head of sales, if he wants to hire a new salesman, he would not do so unless Marta agrees. Or if Marta, as head of marketing, wants to change the advertising agency she uses, she would not make a unilateral decision without consulting John. Qualitative question: How does mutual respect affect one's ability to be influenced? Quantitative question: Does the level of trust between partners predict their ability to influence and be influenced by each other?

They solve their solvable problems. Gottman believed that most problems can be resolved by five steps: soften your start-up, learn to make and receive repair

attempts, soothe yourself and each other, compromise, and be tolerant of each other's faults. If neither John nor Marta wants to fire an unacceptable employee, they would follow the steps by sitting down and calmly discussing the problem. Marta would avoid language such as, "You always make me do the dirty work," and John would avoid saying, "Well, you were the one who hired him." Marta might instead tell John that she knows how much he hates hurting people, but she thinks this person might be more damaged if a woman fired him. John might say that he knows that Marta dislikes this type of confrontation, but the employee views her as head of personnel, so it would make more sense for her to fire him. They would find a way to compromise, such as deciding the person together or taking turns with firing as other personnel issues arise. Throughout the discussion, they would retain the feelings of liking and accepting each other. Qualitative question: What is the role of pragmatism in solving problems? Quantitative question: What is the relationship between communication style and effective problem solving?

They overcome gridlock. Some issues cannot be resolved because individual views are so far apart. However, with deep conversations, even if a compromise cannot be reached, understanding and empathizing with each other's view point can be reached. For example, if John likes to spend more time than Marta feels is necessary in reviewing trade publications, annual reports, and business plans, this problem may go on throughout their business relationship. However, Marta might understand that John's perfectionism or intellectual curiosity is part of his personality and makes him feel safe, and John might understand that Marta gets overwhelmed and nervous with too much information. The good thing is that even if this problem continues, it is better for them to keep talking about it and acknowledge each other's values and point of view. Qualitative question: How do business couples create positive resolutions to difficult problems? Quantitative question: Does empathy predict the ability to solve problems when partner viewpoints are polarized?

They create shared meaning. The couple creates a value system that they both agree upon and reinforce through rituals, traditions, symbols, and shared roles. If John and Marta both agree that employee recognition is key to business productivity, they would schedule annual dinners where employees are recognized for their work. Between the two of them, they would celebrate the opening day of their business by going to an expensive restaurant and reminiscing about the excitement of that day. Qualitative question: How does ritual create shared meaning in the business? Quantitative question: What is the relationship between traditions and family business values?

In terms of diversity, Gottman believed that regardless of sexual orientation, legality of the union, or culture, many intact couples share similar problems and the same characteristics for staying in a satisfying relationship. For example, Gottman believed that gay couples had similar characteristics with the addition of humor and the ability to calm down when fighting as necessary strengths in same-sex relationship.

Gottman also believed his theories translated into different cultures as they have common themes. For example, how to communicate respect may be a universal characteristic of intact couples, although how to actually do this may vary from culture to culture.

6.4.2 Research Suggestions

Gottman's criteria for a successful marriage would be interesting to apply to family business research. Although he believed that the seven criteria translate across cultures, more comparative studies would be required to test that theory. For example, how do business couples in China demonstrate "shared meaning" in their business compared to couples in India? Do all cultures feel the need to have their partner influence them, or do the differences in gender issues play a role? For example, do couples in one or more Latin American cultures share power the same way as couples in Saudi Arabia? In order to answer these questions, it will be important for researchers to be well grounded in individual cultural norms and to think systemically about the impact of combining work and family.

To expand the topic, the concept of marriage or being a couple would not have to apply to just business couples; it could apply to any union in a family business, regardless of who worked in the company. For example, a typical family business has one parent working with one or more children. What about the marriages of those parents or even the children's marriages? How important are Gottman's criteria for the business to succeed? Also, how important is the success of the marriage to the success of the business? If a couple has marital problems, and one spouse has never worked in the business, what is the affect on the working relationship between the business parent and children?

6.4.3 Theories of Marriage: Coontz

In Stephanie Coontz's book on the history of marriage (2005), she traced the evolution of marriage from the ancient Babylon time up to the present and made predictions for the future. She believed that the arrangement, values, and forms of marriages are changing around the world. One of the main points she offered is that marriages of the past were usually based on economics and/or political strategy and were governed by the need to acquire or merge property, wealth, and power bases. However, many of today's marriages are based on intimacy and romance. Coontz argued that these arrangements create a fragile alliance, because the expectations of a long-term loving, passionate relationship are undermined by the realities of everyday living and life challenges. She believed that marriages would become more stable if they were based on more realistic expectations such as friendship and respect.

Coontz not only discussed traditional and modern marriage but also gay marriage and cohabitation, commonly called "living together." She said this about the controversy of allowing same-sex marriages:

> Some of the agitation on the issue of same-sex marriage strikes me as a case of trying to lock the barn door after the horses have already gone. The demand for gay and lesbian marriage was an inevitable result of previous revolution in heterosexual marriage. It was heterosexuals who had already created many alternative structures for organizing sexual relationships and raising children and broken down the primacy of two-parent families based on a strict division of labor between men and women (Coontz 2005, p. 274).

Although some believe that allowing gay marriage is the main threat to a stable family life, she argued that "divorce, single parenthood, and cohabitation among heterosexuals have already reshaped the role of marriage in society and its meaning in people's lives" (p. 275).

Regarding cohabitation, Coontz believed that cohabitation or living together is changing faster than many believe. In the last 50 years, it has become a more accepted lifestyle. Originally in some cultures, those who lived together were either very poor or viewed as living a counter culture, bohemian lifestyle. Later, more people chose to live together and eventually marry, especially if they became parents. More recently, cohabitation is more socially accepted as an alternative to marriage, and for many, there is little difference between marriage and cohabitation, either socially or legally (Cherlin 2010).

6.4.4 Research Suggestions

Coontz's (2005) ideas are fertile ground for family business research. First, her ideas could be applied to couples in family business even if they do not work together. It would be interesting to study business families in which three generations are or were involved in the company. By interviewing the grandparents, parents, and children, one could study how the expectations of marriage were similar and different from generation to generation. The findings could be applied to other family businesses members in the same culture or cross-cultures. Also, how are the expectations similar and different between heterosexual family business marriages and cohabitation as compared to gay marriages and cohabitation?

Similarly, it would be interesting to discover how customers, clients, vendors, and employees view nontraditional couples in family business, particularly in copreneurs. Do gay and cohabitating couples face any discrimination? Do they make their union public or keep it private?

6.5 Case Study: Part Two

Twenty years have passed since John and Marta decided to start a sailing supply business together. They are now in their late 40s and have two children, 18-year-old twin boys. Although the business has survived, their marriage has not. They are in

the process of divorce and are trying to decide among three possibilities: Should they sell the business; have one person buy out the other; or should they continue the business together after their divorce?

6.5.1 The Problems in the Marriage

The marriage is collapsing because of several reasons. The problems started when Marta's father, who lived with them, became too involved in the business. The couple relied on his advice at the beginning because he had experience in a similar business venture. However, he is now too intrusive in the business and in their home life. John feels that he does not have primacy in the relationship and that Marta does not stand up to her father to protect their business and their marriage. On the other hand, Marta feels that John does not support her role as oldest daughter in a Latin family who has obligations and responsibilities to her father and his grief over the death of his wife.

Another problem involves their inability to protect their marital relationship from being overwhelmed by the business. In spite of their awareness of this issue and their intentions to be proactive, they frequently discuss work issues at home and at work. They are too busy to follow through on getting away on vacations or even going to the golf course. The only thing they do together is sailing, which encourages them to talk about business even more.

As their personal time together erodes, the shared meaning of their married life is rapidly diminishing. They argue frequently over household duties and children. Their children are now teenagers, and John and Marta disagree on how to discipline them for missing curfew or not doing their homework and how to enforce family ground rules. With all the tension, the couple's fighting is escalating into hurtful name calling which affects their ability to respect and like the other person.

The final death blow to the marriage is Marta's affair with a man she met while serving on the board of a local charity. John discovered the affair, and he is filing for divorce. Marta talked John into marriage counseling, but it was unsuccessful in reconciling their marriage. Although Marta does not want the divorce, she agrees that their marriage has been unhappy for a long time and is planning for a life without John. They believe their twins are old enough to handle this situation and are not involving them in any counseling. Neither John nor Marta discussed the situation with their children.

6.5.2 The Problems in the Business

The sailing business the couple started was a one-store retail business that has grown into 6 stores in major coastal cities with 40 employees and an annual revenue of three million dollars. The business is experiencing some financial problems because

of an economic recession, but not more than most retail chains. John and Marta feel that the business will survive, and they have already cut expenses by laying off employees. They also have plans for some other cost saving measures if necessary, like closing one or more of the stores.

Even if the business is stable, there continue to be problems with the couple's work relationship. First, John has never been comfortable with his perceived secondary profile. The entrepreneurial idea began with Marta, and because of her father's involvement, the public views Marta as the head of the company and John as second in command. When they attend conferences or other work-related meetings, people seek out Marta first, and John feels left out. His pride does not allow him to share this feeling with Marta, and it is a problem in their relationship of which she is unaware.

Another problem involves a role description ambiguity. At the beginning of the business, John had a clear role in sales, and Marta had roles in marketing and personnel. They both shared financial responsibility, but found this arrangement to be too confusing. Therefore, John became responsible for finances, and he checks with Marta on a regular basis. Now as the business is growing, another function is evolving, something comparable to a chief operating officer who would travel among the stores when needed. Neither John nor Marta wants this role and each one is trying to get the other to take on the responsibility. They believe they do not have enough money to hire someone in this position, so they continue to struggle with this challenge.

Although their work attitudes and aptitudes are outstanding, their personal attitudes still suffer in the areas of "responsiveness to each other's needs" and "willingness to suppress their own needs to support their partner's needs." They sought counseling early in their marriage to improve these area, but the problems continue in their personal relationship and in their business relationship. For example, because John chooses not to tell Marta how left out he feels when the public assumes Marta is head of the company, she is unaware of this significant stumbling block. Even though John feels as if he is suppressing his needs to support his partner's needs, he is really doing it to support the business. He knows that Marta has a more outgoing, dynamic personality and enhances the stores' image. But his silent hurt turns to anger and he purposely will not back down from taking over the operations position even though he knows he has more time than Marta, who is overwhelmed by all of her responsibilities. Also, Marta knows that John wants to take a week off to visit his sister and her family. He recently connected with them, and they will help fill the hole in his life after the divorce. However, she is trying to make him feel guilty about the visit by telling him how much he is needed at work.

This unsupportive behavior has gone on throughout their business relationship. For example, when they opened the second store, Marta did not want to attend the opening, so she talked John into attending even though she knew he needed her there for support. On the other hand, John knows that Marta needs to talk to him right away if she gets anxious about a business problem, and he pretends he is too busy so he won't have to deal with her anxiety. These examples point out the "games" this couple plays in their business relationship that they perpetuate between work and home.

Just as John and Marta made decisions about whether to go into business together, now they have to decide whether to remain a business couple after their marriage ends. The following review of the literature will help in the understanding of couples who stay in business together after a separation or divorce and what it takes to be successful divorced copreneurs.

6.6 Review of the Literature on Divorced Family Business Couples

Most of the literature on divorced couples centers on the problems encountered in their business with the assumption that the business will be sold or that one partner will buy out the other. For example, Galbraith (2003) studied the negative impact on the family businesses' financial performance and economic structure, while Gilbert (1989) thought divorce would seriously interfere with succession planning. From a legal perspective, Sildon (2006) called for prenuptial agreements that included the family business as divorced or separated couples would not want to work together. Doody (2005) noted that more family business members were putting together plans in case a divorce occurred.

One of the first to provide examples of couples who kept a business relationship after a divorce or separation was Nelton (1986). Brown (1990) echoed this observation and suggested ways for professionals to work with these couples. Cole and Johnson (2007) conducted a study on divorced/separated couples who were able to successfully operate their business together, which will be discussed in the following section.

6.6.1 Successful Divorced Business Couples

The authors of this chapter also conducted a grounded theory study (Cole and Johnson 2007) on heterosexual and homosexual business couples who had divorced or separated. The theory that evolved from the research is: The participants' success in working together after their romantic relationship ended did not center around practical reasons like needing to continue an income or relying on each other's skill set. Instead, they listed intangible, emotional issues as more important in making their business relationship continue. The criteria are listed below.

Trust. All of the couples in the study identified trust as the most important factor needed to continue a business relationship after a separation or divorce. It was interesting to see how unconcerned they were about exit strategies or other financial issues.

John and Marta describe their trust as above average. They do trust each other in all areas of the business, but John is losing some trust in Marta since the affair.

He believes that kind of deceit may trickle over into the business, and he plans to review every decision Marta makes.

Compartmentalization. The trust issue implies that the research couples probably did not have a contentious divorce or separation, but all reported that they did. Even more interesting is that over half of the romantic relationships ended because of infidelity. However, the participants were able to separate business trust from personal trust and keep personal issues out of the business environment.

At this point, John is unable to compartmentalize their personal relationship from their professional. As in the example above, he cannot yet separate business trust from the trust he had in Marta in their marriage. He is most uncomfortable with including her on every financial decision that is made and also has lost confidence that she is handling marketing and personnel in the most productive way.

Emotional Connection. When asked why they kept working together, the research participants listed practical reasons, but more than two third of the reasons were things like "being committed to each other," "keeps us close," "helps the healing," and "emotional stability." Other reasons given were friendship, shared history, and similar values.

Marta values her time together with John and does not want the divorce. She believes that keeping their business relationship will keep her connected to him. John, in spite of his hurt, feels the same way. They retain their shared history with the business as well as their children and have similar values in both areas. However, the affair is eroding the friendship and confidence in each other that they once experienced.

Synergy. The couples in the study spoke of the yin and yang of their business relationship. This included the respect that they had for each other's talent which resulted in clear job descriptions with no one intruding on the other's turf. They also thought these talents worked together in a synergistic style with fun and energy that enhanced their business performance.

John and Marta used to have a lot of synergy, but their inability to resolve the need for an operations person, an important business decision, is blurring their clear job descriptions. As previously described, the business has evolved to the point of needing someone to travel from store to store, but neither one wants to take on the responsibility.

Commitment to the Business. All of the respondents mentioned their commitment and passion for the business. They were not able to juggle the needs of marriage and work, so they chose to leave the intimate relationship and maintain the working one. They viewed the business in an almost parental way by referring to it as "our baby."

Marta feels more commitment to the business than John does. It was her idea and she feels her father worked harder to start the business than John. On the other hand,

John likes the business, but feels there is a business life elsewhere that may excite him more.

Gender Issues. In the study's findings, gender issues were not a problem if each partner felt supported by the other. This was especially necessary if the male had less visibility than the female.

John and Marta's business role confusion over the operations manager duties creates an unsupportive atmosphere as each wants the other to assume that role until someone is hired. Also, John feels left out because of Marta's high profile in the company.

Outside Influences. Children, friends, employees, and customers did not have as much influence on their working relationship as extended family and significant others. Most of the participants' extended family supported and encouraged their working relationship. If a significant other could not handle their love interest's business relationship with an ex-spouse, then the new relationship usually ended.

There is really no significant support from extended family. Marta's father died, and her siblings are giving conflicting advice about what to do with the business. John's sister and mother do not have an opinion except to do what he thinks is in his best interest. As for significant others, Marta broke up with her boyfriend because he did not understand why she is considering working with her soon to be ex-husband. Children are more of an issue for this couple as their 18-year-old twins are graduating from high school and planning their future. One of the twins wants to go away to college, and the other plans to attend a nearby university so he can begin working in his parents' business. He plans to major in business so he can take on more responsibilities when he graduates and wants to become head of the company some day.

6.6.2 Assessment

According to the research criteria for successful divorced copreneurs, John and Marta seem to have more negatives than positives. The main positive is their emotional connection and desire to remain in contact with each other. Also, Marta broke off a relationship, as the person did not approve of her continuing to work with John. However, trust and gender issues are major obstacles. If John is unable to compartmentalize trust in their personal relationship from trust in their working one, the idea of continuing as a business couple seems doomed from the beginning. He may always be watching for Marta to see if she deceives him at work as she did in their marriage. This suspicion will probably end the divorced copreneur relationship soon after it starts. The problem of gender issues presents another roadblock, especially with John's frustration over his low profile in the company compared to Marta. Also, tension over the operations manager work interferes with their ability to be supportive of one another.

6.6.3 Research Suggestions

As in the study on married business couples, Cole and Johnson's (2007) research on divorced copreneurs is limited to the United States. Cohabiting, Latin, and gay couples were also included in this study, but the research findings could expand to other cultures and countries with comparative studies. The same cultural questions listed in the married copreneur research suggestions could also be used for divorced business couples.

It would also be interesting to compare the characteristics of married copreneurs to divorced ones to see which characteristics may be more closely examined. For example, if one studied the reasons that divorced couples ended their marriage but kept their business, which characteristic was the most violated? One assumption would be that they did not protect their romantic relationship from being overwhelmed by work. Did their inability to draw boundaries cause the break-up and/or did one person tire of asking more private time together away from work?

Researchers could use the findings of the Cole and Johnson (2007) study to explore the criteria in more depth. Some suggestions for research questions about business couples who are divorced or separated, or in the process, may include:

Trust. How do business couples define trust? What do couples think contributes to building a trusting relationship? How is trust demonstrated in a family business couple? How do couples successfully manage a trust violation?

Compartmentalization. Do couples think there is a difference between business trust and personal trust? What trust violations in the business do they consider the most severe? What is the least severe? How does culture affect one's ability to compartmentalize?

Emotional Connection. How do couples define an emotional connection? How do they sustain an emotional connection? What is the difference between an emotional connection at work and in the marriage? How does proximity in a working relationship affect emotional connections?

Synergy. How are job descriptions decided in the company? What makes the job descriptions clear or not clear? How do they cope with unclear job descriptions? What factors create synergy in a copreneurial relationship?

Commitment to the Business. Has commitment to the business changed over the years? What is needed to retain commitment to the business? What personal characteristics demonstrate commitment to the business? How does a change in the couple's marital status affect commitment to the couple's business?

Gender Issues. How is it decided who will be the more visible person in the company? Are there more men than women in this role? How is support demonstrated by the business couple? Are there gender differences demonstrated in how a disagreement is handled?

Outside Influences. How do extended family members influence decisions in the family business? Who is the most supportive of the decision to remain business partners? Who is the least supportive? Who would they like to be more supportive? What are the merits and limitations of a relative working in the family business? How does role in the family business affect the role in the family and vice versa.

6.7 Divorce and Couple Relationships

The previous discussion is based on divorced couples who are in business together. However, by examining theories of divorce with nonbusiness couple relationships, some interesting ideas for research may evolve. The theories of two of the best known experts on divorce, Constance Ahrons (1995, 2004) and Judith Wallerstein and colleagues (1980, 2000), are presented in the following sections followed by ideas for application to family business research.

6.7.1 Theories of Divorce: Ahrons

Constance Ahrons (2004, 1995) is considered an expert in divorce and its impact on couples and families. She divided divorcing couples into five different types:

- Cooperative Colleagues: These couples are able to deal with their anger in more positive and productive ways.
- Perfect Pals: These couples have some conflicts and spells of anger, but still manage to stay close and caring, almost as best friends.
- Angry Associates: These couples remain enemies. Their anger with each other permeates all the relationships in the family.
- Fiery Foes. These couples are like angry associates who express their anger in more intense ways with continued child custody battles and sometimes acts of violence.
- Dissolved Duos: These couples discontinue any type of contact, and if they are parents, usually one parent disappears from their children's life.

Ahrons (1995) challenged the myth that everything is negative after a divorce or separation, thereby eroding the foundations of society. Therefore, the stereotypes of couples becoming bitter and children becoming damaged do not have to happen. Although she did not believe that divorce is good, she did believe there is a good divorce in which couples are able to maintain a positive relationship, usually for the sake of their children.

In 2004, Ahrons published the results of her research with children of divorce, which included 173 in depth interviews with grown children whose parents she had interviewed 20 years earlier when they were going through a divorce. The results challenged some stereotypes of children of divorce becoming troubled with symptoms of drug addiction, low academic performance, and the inability to form intimate relationships. Many of the adult children in the study had parents who tried their best to maintain a family life after the divorce, and these efforts seem to increase the children's emotional well-being. Most of the participants reported feeling stronger and wiser and felt some positive benefits for their parents as well as themselves. One of the most interesting findings was that half of the adult children reported that after the divorce, their relationship with their father had improved.

6.7.2 Research Suggestions

It would be interesting to see how Ahrons' five types of divorced couples compare to Cole and Johnson's (2007) characteristics of successful divorced copreneurs. An assumption to test would be to see if these couples viewed themselves more as Cooperative Colleagues or Perfect Pals, while those who decided not to remain working together related more to Ahrons' other three categories.

Ahrons' (1995, 2004) work could also produce some neglected areas of the impact of divorce on the family business members, even if only one part of the couple works in the company. As stated before, a typical family business is a parent working with one or more children. If those parents divorce, how does that impact the business, especially all the different family relationships. Are their differences between a divorce when both parents work in the company compared to just one parent? Are their differences between straight and gay divorcing couples? What about a different kind of divorce in business families? For example, if a divorcing son and his wife work with a father/owner, how does this affect the business and the family? What if the owner is a mother? What are the gender differences among all these questions?

6.7.3 Theories of Divorce: Wallerstein and colleagues

Judith Wallerstein and colleagues (1980, 2000) had a more negative view of the impact of divorce than Ahrons. In the 1970s, she began her research with 131 children of divorce and followed them throughout the years. In 1980, Wallerstein published the results of interviews with children ranging in age 3–18 (Wallerstein and Kelly 1980). They believed that the frustration, anger, and unfilled wishes stayed with these children, especially if one or both parents were unable to effectively parent. In a more recent publication (Wallerstein, Kelly, and Blakeslee 2000), she reported more findings of the children who were adults in their late 20s to early 40s. One of their greatest fears was that they will repeat the pattern of their parents and fail at relationships. Although some overcame this struggle, others did not. One of the interesting observations is that most divorcing parents overcome their pain in 3 years, but the children's pain and fear is long lasting. As the stated:

> Here's how it works: at the threshold of young adulthood, relationships move center stage. But for many that stage is barren of good memories for how an adult man and woman can live together in a loving relationship. This is the central impediment blocking the development of the journey for children of divorce. The psychological scaffolding that they need to construct a happy marriage has been badly damaged by the two people they depended on while growing up (pp. 32–33).

6.7.4 Research Suggestion

The differences between Wallerstein's and Ahrons' research findings could be interesting to examine in family business. Wallerstein is more pessimistic about the

impact of divorce on children, regardless of age. Therefore, studies of children of divorce in business families could be the basis of several studies: What are the differences between different age groups of children of divorce in a family company? Is the impact different for children not working with their parents compared to children who are? What is the difference in gender? What is the difference if the divorcing couple is gay?

6.8 Widening the Lens

The ideas presented here were intended to generate more research in marriage and divorce and its impact on family business members, especially the relationships between couples. Also, encouragement was given to involve more same-sex studies as that population has received minimal exposure in family business literature. Another neglected area of study involves the nonfamily members: employees, customers, clients, vendors, etc. How is this population affected by marriage and divorce? What is the impact on the business? The lens widens further when considering other topics related to marriage and divorce: courtship, cohabitation, premarital preparation, remarriages, blended families, etc. Regardless of the chosen topic, future research in this area will help support and remind others of the importance of family relationships in family business.

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Chapter 7
The Bad Seed's Poisonous Harvest: How Offspring Sow and Reap Deviant and Dysfunctional Behavior in the Family Business

Kimberly A. Eddleston and Roland E. Kidwell

7.1 Family Strife at The Season's

It was another night without sleep. What Tony overheard his employees discussing earlier in the day was chilling. They were debating whether it was better when his son, Bobby, didn't report to work or when he actually came to work at the family's restaurant. Those arguing that work was better when Bobby *didn't* show up cited the times Bobby came to work drunk, stole money, or harassed the female staff. Employees arguing that Bobby *needed* to report to work complained that his tardiness and unpredictable absences caused their own workloads to increase. One employee lamented about the time she missed her best friend's birthday party because Bobby did not show up to relieve her. Although Tony knew that his son caused problems for the family, he did not realize that Bobby was also infringing on the employees of the family firm. Nor did he realize that the employees knew the extent of Bobby's dysfunctional behavior. Tony had thought he had hidden these problems from the rest of the staff. He was obviously wrong. Tony barely got any sleep that night as he tossed and turned thinking about his son's role in the family business.

The Season's was a successful restaurant that had been started by Tony's father, Joseph, 86 years ago. The Season's had a very humble beginning as a lunch stand next to a large jewelry factory. Due to its popularity, Joseph was able to open an entire restaurant after tirelessly working and saving money for almost 10 years. For as long as Tony could recall, he remembers helping his father establish and grow the

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family restaurant. As a youngster, he washed dishes, cleared tables, and vacuumed floors. He soon moved to waiting tables and then to aiding the chefs and Joseph in the kitchen. The Season's was a true family affair. The menu was based on traditional family recipes, Joseph was chef in the kitchen, and Tony's mother, Marie, helped with kitchen prep-work during the day and greeted people at the restaurant in the evening. Tony's fondest memories are of him, his father, and mother sitting around a restaurant table planning menu changes and testing new recipes. Although Tony's mother and father have long since passed away, Tony still feels their presence in many of the staple menu items, basic décor of the restaurant, and the family atmosphere his parents created among staff.

Tony was thrust into the leadership role of the family business when Joseph suffered a debilitating stroke. While Marie cared for her ailing husband, Tony managed The Season's. The loyal staff eagerly assisted Tony in his new role; their dedication to Joseph transferred smoothly to Tony as they worked to honor Joseph's commitment to them over the years. In turn, Tony reciprocated their loyalty by maintaining many of the traditions that Joseph began among the staff. For example, the staff were invited to dine together before the restaurant opened on weekdays, staff would share a cocktail after hours on weekend nights, and staff received their birthday off with pay. Although the restaurant industry is known for its high turnover rate, staff at The Season's averaged 10 years of tenure, with some having worked at the restaurant their entire career.

Under Tony's leadership, The Season's tripled its profitability. The restaurant was so successful that Tony expanded the business by adding a banquet room and enlarging the bar area. He also wanted to ensure that the restaurant would be successful enough to support his two sons – Tony Jr. (or "Junior") and Bobby. Junior was just 12 years old when his father took over the family restaurant. But because his grandfather's stroke was sudden, Junior's assistance was needed. Tony's wife, Lilly, was unable to devote much time to the business because she needed to care for Bobby who was just 5 years old. However, Junior helped in any way that was necessary – he took out the garbage, washed dishes, restocked kitchen shelves, cleared tables, and vacuumed floors. It was a difficult time for the family, but their commitment to the restaurant and each other helped them persevere.

As Junior continued to work side-by-side with his father, he also worked to earn a business degree from a local community college. Meanwhile, Bobby focused on school work, playing high school sports and then attending a private, exclusive university. Although Tony and Junior had very different personalities, they worked well together. Tony is charismatic, friendly, and outgoing, and therefore, would focus on hosting duties, greeting and seating people, and making customers feel welcome and appreciated. Customers often came to The Season's just to visit Tony and many would wait an hour or more for a table. In contrast, Junior is a quiet person and prefers to manage the kitchen, working side-by-side with the chefs, doing whatever is necessary to keep the kitchen running smoothly, and also performing administrative tasks like scheduling and bookkeeping. Employees respected Junior because they saw him as a dependable, hardworking boss who always treats them fairly.

Once Bobby graduated from college, he joined the family business managing the bar area. The head bartender, Carly, was charged with training Bobby and teaching

him how to manage the bar. Carly was not pleased that she would now be sharing her responsibilities with Bobby, particularly because Bobby had no previous bartending experience. But Tony had been so good to her over the years that she did not initially complain. However, troubles with Bobby began almost immediately. He would consume cocktails while tending bar, give away excessive drinks to friends, and sexually harass waitresses waiting for their drink orders. As time progressed, Bobby's behavior got worse. He began stealing cash from the register, taking bottles of liquor home with him, and not showing up for work. When Bobby had a party for his friends after hours without permission, Tony finally clamped down. Bobby and his friends drank over $1,000 worth of liquor and broke the restaurant's sound system. The morning after the party, when Tony discovered the mess, he called Junior in to help clean the restaurant before staff arrived. Later that week, Tony installed a locked liquor cabinet in the restaurant basement and took all keys away from Bobby. Tony gave Carly a raise for her dedication and patience, although some employees felt that it was to keep Carly from publicly complaining or quitting her job. In turn, Bobby started to miss more and more days of work. Junior did not want the bar staff to suffer or to realize that Bobby was skipping scheduled shifts, so he began to fill in for Bobby, making excuses for Bobby's absences.

Tony didn't know what to do. While any other employee would have been fired for such deviant behavior, Tony just couldn't turn away his son. Who else would hire Bobby? As a father, wasn't it his duty to care and provide for his son? Could he find a place for Bobby in the restaurant where he would do the least amount of damage and even contribute to the business? After all, Bobby did earn honors when he received his business degree. Yet, at the same time, Tony could also see the stress that Bobby was placing on Junior, as he worked to compensate for Bobby's deviant behavior in an effort to hide these problems from the staff. Should Junior get a raise? Could Junior train Bobby to be like him? What if he and Junior confronted Bobby – would that make things better? Or would that cause more tension among family members? Lilly would be devastated if the family did not stay intact. What could Tony do?

7.2 What's a Family Firm Leader to Do?

Deviant and dysfunctional behavior is extremely costly to any organization, regardless of size or type of ownership. This chapter offers behavioral reasons why some family members display deviant and dysfunctional workplace behavior, exemplified by Bobby, the bad seed at The Season's Restaurant. We also explain how family business leaders may develop differential status exchange relationships with family members and the consequences of those relationships. Because about 80% of all businesses are family firms, with 2.7 million family businesses started each year (Chua et al. 2004), and employee deviance, such as theft, causes significant business failures and costs businesses billions of dollars each year (Tomlinson and Greenberg 2005), understanding the factors that may increase deviance in the firm is of the utmost importance.

Deviant behavior consists of normative violations undertaken by members of organizations that are intended to or have the effect of damaging coworkers, managers, the firm, or even society (cf., Robinson and Greenberg 1998; Bennett and Robinson 2003; Vardi and Weitz 2004; Robinson and O'Leary-Kelly 1998; Judge et al. 2006; Warren 2003). Although forms of deviant and dysfunctional behavior in organizations have been frequent topics for researchers in criminal justice, psychology, sociology, and management (e.g., Cressey 1953; Hollinger and Clark 1982; Quinney 1963; Altheide et al. 1978; Robin 1969, 1974; Greenberg 1990, 1993; Robinson and Bennett 1995), previous research has not fully considered how such nefarious and damaging activities develop in a family business.

Misbehavior by members of family firms such as Tony's at The Season's Restaurant can create dangerous and destructive consequences that threaten the survival of the business. Although research into deviant behavior in the workplace has significantly developed theoretically and empirically over the last decade, several useful perspectives from organizational studies of deviance have yet to be applied to the family firm. To address this gap in both the family firm and deviance literatures, we focus on antecedents of dysfunctional and deviant behavior in the family firm, focusing particularly on issues unique to – or exacerbated by – a family firm context.

A framework for studying deviant and dysfunctional behavior in the family firm should integrate antecedents of such behavior at the individual level (e.g., perceptions and attitudes), the group level (e.g., family and work relationships), and the organizational level (e.g., family firm leadership and climate) and propose how perspectives on deviant behavior might be adjusted to the family firm context. Thus, at the individual level, theories related to perceptions, attitudes, behavioral intentions, and emotion are relevant as potential factors that predict the likelihood a family member will engage in behavior that may harm the family firm. In addition, family firm relationships can serve as group-level influences on the likelihood that family members will behave in a dysfunctional and deviant manner. Finally, characteristics at the firm level, where the activities of both family and nonfamily employees of the firm can serve to damage the organization, should also receive attention.

In applying workplace deviance to family firms, we differentiate between deviance models in the family firm and those relating to organizations in general. By considering bonds, entitlement, and organizational justice in our framework, we demonstrate how situational considerations can indirectly worsen workplace deviance in family firms. We also explore how bonds intensify a family firm employee's loyalty and increase trust of the owner toward that employee – but could lead to conditions that result in violation of societal norms. Before specifically delineating a family firm perspective, we discuss deviant behavior in organizations.

7.3 General Perspectives on Deviant Behavior

Negative deviance is manifested in organizations through such behaviors as free-riding, shirking, lying, harassment, theft, aggression, and drug and alcohol abuse by managers and employees and represents an extremely high cost to businesses in

terms of lost productivity and higher operating costs (cf., Sackett 2002; Vardi and Weitz 2004; Kidwell and Martin 2005). For example, employee theft accounts for more than 30% of business failures and costs retailers more than $15 billion a year (Tomlinson and Greenberg 2005). Withholding effort and employee theft can deprive firms of crucial productivity and resources, whereas workplace violence and aggression can jeopardize the lives of managers and employees. Employee whistle-blowing and negative blogging can also hurt a firm, but may have positive benefits for other organizational stakeholders. To be deviant, a behavior must violate a norm, but that does not automatically make it bad behavior: "Deviance can be good or bad, beneficial or harmful, depending on the nature of the norms and the nature of the deviance" (Locke 2003: 426).

Whereas deviant behavior exemplified by theft and aggression is said to violate both organizational norms and societal standards, theory development has focused on how two different levels of norms exist and how they may result in both positive and negative forms of deviance. Hypernorms are said to reflect globally held values and beliefs (Warren 2003), such as standards that identify stealing, cheating, and lying as improper acts within a society. Reference group norms reflect the values and beliefs of smaller collectives such as organizations (Warren 2003). Within this perspective, organizational standards may reflect or conflict with societal norms. Many organizational cultures practice societally recognized ethical standards, whereas the norms of some organizations (e.g., Adelphia Communications; see Kidwell 2009) conflict with what society considers acceptable. This distinction advances the possibility that a "deviant" employee may violate organizational norms (refuse to engage in illicit activity and then tell the authorities about the company's actions) and at the same time adhere to societal norms. Conversely, the employee may follow organizational norms of lying and covering up improper behavior, but in the process violate societal standards that discourage such behavior. For the purpose of this paper, we focus on negative, dysfunctional deviance which consists of normative violations by employees that are intended to damage the firm. Less severe forms (free-riding, job neglect, substance abuse, badmouthing others) may be the first to manifest and these can lead to more dangerous expressions of deviance (harassment, theft, aggression, fraud). Deviant behavior can be primarily directed toward the self (intrapersonal such as drug use), toward others (interpersonal such as harassment or violence), or toward the firm or society in general (property damage, theft, or corporate fraud).

7.4 Deviance in the Family Firm

Family firms can be distinguished from nonfamily firms in that the family firm encompasses three overlapping subsystems: family, firm ownership and firm management (Gersick et al. 1997). In addition, "family business entrepreneurs are unique in that they seek to build businesses that are also family institutions" (Chrisman et al. 2003: 442).

Company histories of family-owned and -operated organizations indicate that family members make divergent contributions in family firms (e.g., Brinkley 2003;

Howe 2005) with some family employees strongly dedicated to the business and others slack in their efforts. Although family members should be less likely to free ride on the work of others (Shleifer and Vishny 1997) and more likely to show greater dedication to firm performance (Beehr et al. 1997) than outsiders, research has shown that family firms often hire family members who are "less able, committed, industrious, or ethical, or whose interests are less compatible" with the family firm than would be expected (Chrisman et al. 2004: 336). This suggests that although deviance has been a neglected topic in the family business literature, it may actually be more common than typically admitted by family firm owners.

Successful integration of offspring into the business is an important issue for many business owners (Barach et al. 1988). More than 80% of operating firms and 77% of all new ventures are family businesses (Chua et al. 2004). Furthermore, another 4% of new ventures will evolve into family businesses (Chua et al. 2004). As such, family firm owners are faced with choices regarding how to bring children into management, define their roles, and eventually prepare for succession as the business passes from one generation to the next. Although a vast majority of family business owners have a strong desire to keep their businesses family-owned (American Family Business Survey 2002), research indicates that 70% of family firms do not survive into the second generation and 85% are extinct by the third generation (e.g., Gersick et al. 1997; Ward 1987; Bennett et al. 2005). It has been suggested that family firms may fail or suffer performance problems because family members working in the business act deviantly or opportunistically, exploiting the business for personal gain (Bennett et al. 2005).

Although family members are expected to show greater dedication and commitment to the firm than nonfamily employees, some family members may be more prone to deviant behavior than nonfamily employees (Bennett et al. 2005). However, we do not fully understand why some children become assets to their family firms, working side-by-side with their parent(s), while others become deficits and deviants. Attachment theorists have focused on the importance of the parent–child exchange in explaining children's moral development, conscience development and acceptance of parental values, e.g., children in weak parent–child relationships show lower levels of self-restraint than those with strong and secure attachments with their parents (Laible and Thompson 2000). Furthermore, a proclivity for deviance may be exacerbated in family firms because the founder often continues to act generously toward his or her children even when a child displays unproductive or opportunistic behaviors (Chrisman et al. 2004; Lubatkin et al. 2005; Schulze et al. 2001). For instance, research indicates that children often free ride when working with their parents because they realize they will keep receiving benefits because of their parents' altruistic behaviors (Peters et al. 2004). As such, the parent–child exchange appears to be one key factor to consider in examining deviance in the family firm.

Agency theory research suggests that the way owners interact with their family members is a root cause of agency problems in family firms. For example, parents often continue to act altruistically toward their children even when their children shirk responsibilities, act incompetently, or display unproductive behaviors (Chrisman et al. 2004; Lubatkin et al. 2005; Schulze et al. 2001). A parent's preferential treatment

toward family members and difficulty in punishing negative behaviors due to potential spillover effects on family relationships makes workplace deviance unique in family firms. Below we discuss how family firm deviance can be encouraged by individual, interpersonal, and firm level factors.

7.5 Individual Level Factors: Perceived Entitlement and Injustice in the Family Firm

7.5.1 Entitlement

Entitlements can be part of a positive employment relationship when they are aligned with business needs and based on fair contributions (Heath et al. 1993). However, entitlements can be hazardous to an organization when employees believe they deserve rewards and privileges even though their performance does not merit it; they believe they are entitled because of who they are, or simply, because they feel they are owed more. In other words, overentitlements can form when individuals "focus more on what they are owed than what they owe" (Anderson 2002: 9). Therefore, given our focus on deviant behavior in family firms, we mainly concentrate on unearned entitlement beliefs.

The overlapping nature of the family business, with norms governed by family relationships as well as business practices, complicates family members' sense of entitlement (Van der Heyden et al. 2005). Whereas families tend to allocate resources based on need (Lansberg 1983; Van der Heyden et al. 2005), the principle of resource allocation in business is based on merit and equity for performance (Van der Heyden et al. 2005). That is, the family is expected to provide for the needs of family members so that when one family member requires more resources than others, it is acceptable for the "needy" family member to receive the additional resources, even at the expense of "less" needy family members (Van der Heyden et al. 2005). Further, family members may believe they deserve more resources or privileges because they hold particular family status or because they feel they have greater needs than others (Bennett et al. 2005). In comparison, an effective business distributes resources to facilitate productivity and rewards individual performance and contributions. Problems with entitlement can occur in family firms when family members expect the firm to allocate resources in the same manner as the family (Bennett et al. 2005; Lansberg 1983).

If family members believe they are entitled to more benefits than they have received, workplace deviance directed at others and/or the firm is more likely to occur. Specifically, children with a strong sense of entitlement may be more likely to engage in theft because they feel they deserve a piece of the wealth given their poor and neglected childhood during the firm's early-year struggles (Fleming 2000), they believe they have more rights than others due to their family status, or they feel a need for a resource that the firm owns (Bennett et al. 2005). In addition, because

children often feel they have a residual claim on the family firm (Schulze et al. 2001), a strong sense of entitlement may cause children to believe that firm resources are theirs to do as they please, intensifying the effect that entitlement has on deviance. Children's feelings of residual claim on the firm may also allow them to rationalize their behavior. Rationalizing workplace deviance is important because it allows employees to behave deviantly without feeling guilty or embarrassed (Robin 1974), potentially causing them to engage in more deviance. For example, a family member may feel he or she can use a company vehicle because it belongs to the family firm, or a child may feel he or she can ignore company policies because, after all, he or she may someday lead the family firm. As such, when children, for example, feel a strong sense of entitlement, they are more likely to behave deviantly in the family firm.

7.5.2 Injustice

A sense of injustice, or lack of fairness, may prompt deviance by family employees of family-owned firms. Researchers in procedural and distributive justice argue that employees care a great deal about fairness: they withdraw commitment from relationships they see as unfair (Greenberg 1988), they seek retribution from perceived unfair treatment (Greenberg 1993), and they will even sacrifice personal gain to punish those who are unfair (Lowenstein et al. 1989). Fairness focuses on the expectations that are created by "comparing what occurs (or is expected to occur) against reciprocity norms" (McLean Parks 1997: 115). The justice literature emphasizes that people seek a sense of balance when they perceive a situation as unfair (McLean Parks 1997; Sheppard et al. 1992). This research proposes that balance is achieved by reducing one's inputs, increasing one's outcomes, reducing outcomes of the wrongdoer, or increasing inputs of the wrongdoer (McLean Parks 1997). Therefore, in seeking to balance perceived unfair treatment at work, an employee may turn to deviant acts.

In family firms, fairness concerns are particularly intense because family members compare themselves with other relatives based on their status at work as well as their status within the family (Rosenblatt et al. 1985). Furthermore, fairness norms are unique in family firms because what is fair in the family domain differs from what is fair in the business domain. In the family, equality is the dominant fairness norm; that is, each member should be given an equal share of resources and opportunities (Lansberg 1983). In comparison, the dominant norm of fairness in the firm is based on merit; that is, an employee's rewards are determined by his or her competence in accomplishing firm goals (Lansberg 1983). Thus, a child can perceive injustice based on unfair treatment within the family, the firm, or both.

In turn, the perception of unjust treatment can be seen as representing a psychological contract violation, which refers to an employee's perception that the organization has failed to fulfill one or more of its obligations (Turnley and Feldman 2000). Children of family firms often believe they should receive certain rewards in return for the contributions they make to the firm as well as in return for their membership in the family. These violations have been described as involving

feelings of betrayal, distress, anger, and resentment (Morrison and Robinson 1997). When the psychological contract is violated, employees seek to restore a sense of justice by withdrawing from their organizations (Turnley and Feldman 2000; Robinson and Rousseau 1994) and seeking revenge or retaliation (Morrison and Robinson 1997). When a family member perceives unfair treatment within the family firm, believing he or she does not matter to the firm (Stamper and Masterson 2002), workplace deviance is likely to intensify.

7.6 Family Firm Relationships: Bonds and Parental Altruism

7.6.1 Bonds to the Family Firm

A child's bond to the family firm appears to be an important factor in explaining workplace deviance in that it can reflect how the quality of the employment relationship influences employee behaviors. Specifically, social bonding theory helps to explain how an employee's bond to a group or organization affects his or her propensity to behave deviantly (Bennett et al. 2005; Hirschi 1969; Sims 2002). In particular, Hollinger (1986) argued that an employee's attachment, commitment, and involvement with an organization influence employee deviance. Employees who feel more attached to their organizations are more likely to behave ethically and to follow the rules of the organization (Sims 2002). Indeed, increased feelings of belonging and loyalty to the organization have been found to decrease the likelihood of ethical rule breaking by employees (Sims 2002). The more valuable the organization is to the employee, the less likely the employee is to jeopardize it by engaging in workplace deviance (Huiras et al. 2000; Robinson and Bennett 1997). Furthermore, attachment to others helps determine if a person will violate conventional rules (Akers 1994; cited in Longshore et al. 2004). Research has indicated that perceived support from one's manager influences an employee's attachment to the firm (Wiesenfeld et al. 2001).

Applying this logic to the family firm, a family member's attachment to the firm grows or is stifled based on the relationship formed with the family firm leader. For example, favored children who enjoy high-quality relationships with the firm leader develop strong bonds and higher commitment to the firm. Conversely, unfavored children who have a low-quality relationship with the patriarch or matriarch are likely to form weaker bonds with the firm and display lower levels of commitment. Indeed, perceived organizational support and favorable treatment by a supervisor have been linked to affective commitment to an organization (Eisenberger et al. 1986; Stinglhamber and Vandenberghe 2003).

Bennett et al. (2005) argued that a family member's bond to the family firm would affect his or her propensity to behave deviantly. Family firms are often depicted as relying on intrafamilial concern, devotion to others, and clan-based collegiality (Corbetta and Salvato 2004; Greenwood 2003). Effective interactions between family members are founded on common bonds, which are characterized

by commitment and mutual trust (Gomez-Mejia et al. 2001). In turn, a strong family bond encourages family members to act as stewards of their firm, motivated to fulfill organizational goals (Eddleston and Kellermanns 2007). Thus, children with a strong bond to the family firm may be motivated to act in the best interest of the firm, minimizing their propensity to behave deviantly. This is in line with Bennett et al.'s (2005) argument that family members who share affection and highly value their family relationships are less likely to engage in workplace deviance.

However, families vary in their level of cohesion and strength of bonding among family members (Lansberg and Astrachan 1994). Some family firms suffer from much interpersonal conflict, creating frustration, animosity, and irritation of others (Kellermanns and Eddleston 2004). Interpersonal conflict may increase the propensity for self-interested behavior by family members (Eddleston and Kellermanns 2007), thereby leading to greater workplace deviance. This relates to Hirschi's proposal that when people do not care about the "wishes and expectations of other people" (1969: 18), they are more likely to behave deviantly. Indeed, it has been argued that family firms lacking affection and an emotional bond are more likely to suffer from deviance problems (Bennett et al. 2005). Therefore, family members with a weak bond to the family firm may have a greater propensity to behave deviantly than those with strong bonds to the family firm.

7.6.2 Parental Altruism

Altruism is a central concept that distinguishes the family firm from other institutional forms (Peters et al. 2004). Economists view parental altruism as a utility function that positively ties the welfare of parents to the wellbeing of their children (Stark 1995). Parental altruism has been argued to cause agency problems within family firms (Lubatkin et al. 2005; Schulze et al. 2001; Chrisman et al. 2004) whereby agency theory is applied to investigate dysfunctional behaviors attributable to family involvement (Corbetta and Salvato 2004). Therefore, parental altruism may also be an important factor that helps explain why some family members act deviantly in family firms.

Parental altruism compels parents to be overly generous toward their children, thereby encouraging children to shirk responsibilities and to remain dependent upon their parents (Schulze et al. 2003). A high level of parental altruism can be very dangerous in family firms because it encourages parents to continue to provide wealth and resources to their children regardless of their child's contribution to the firm (Van den Berghe and Carchon 2003). In other words, parental altruism can cause parents to have "blind faith" in their children (Van den Berghe and Carchon 2003). It can bias a parent's perception of their children, thereby hampering their ability to monitor and discipline their children (Lubatkin et al. 2005). In addition, when parents do recognize a problem with their children's behavior, parental altruism can refrain parents from punishing betrayals (Bernheim and Stark 1988). Sometimes referred to as "silver spoon syndrome" (Hollander 1987), parents often

hesitate to correct children in family firms who underperform or undermine the intent of the family business (Bennett et al. 2005). Also, parental altruism can encourage parents to hire family members who are of low quality or ill-suited to the family business (Lansberg 1983; Lubatkin et al. 2005).

How family firm leaders interact with their children, particularly their level of altruism, will affect family member's behavior. Whereas individuals who dislike their organizations or perceive a lack of fit are likely to leave their jobs (Graen et al. 1982), parental altruism may induce such children to stay with the family firm because they believe their needs will be met by their parents. When parental altruism is strong in a family firm, family members, particularly children, may expect their parents to be overly generous thereby causing these children to believe their needs should be fully met by the firm, similar to how their needs are met by the family. For example, parents who spoil their children and allow them to have privileges in the family firm that they otherwise would not receive are actually encouraging their children to behave in a deviant manner. Furthermore, because their altruistic parents give in to their desires and seldom give negative or constructive appraisal of their work, these children may not perceive their deviant behavior as selfish or wrong, thus fostering greater deviance.

7.7 Firm Level Factors: Leadership and Ethical Climate

7.7.1 Leadership

Leadership by top management is a key element in the development of ethical, and deviant, behavior within an organization. A leader's ability to wield moral authority and influence ethical culture should influence followers to behave ethically (Treviño 1990; Murphy and Enderle 1995; Treviño and Brown 2005). Conversely, by taking dubious short cuts, exhibiting favoritism to family members, unjustly treating others and failing to live up to agreements with employees, the family business leader models unethical processes that subtly encourage followers to engage in deviant behaviors. These actions reflect both social learning (Bandura 1977) and social exchange (Blau 1964) explanations for the leader's effect on the followers' deviant behavior.

Research on leader-member exchange (LMX) has recently been applied to the family business setting to explain how family firm leaders can encourage or deter workplace deviance (Eddleston and Kidwell in press). LMX focuses on the development of different types of relationships – high quality and low quality – that emerge between leaders and subordinates in terms of effort, information exchange, and emotional support (Liden et al. 1997). Specifically, it has been argued that when the parent–child relationship is of high quality, the child employee is less likely to participate in workplace deviance (Eddleston and Kidwell in press). In these types of relationships, the parent–leader is more supportive, consults, dele-

gates, and mentors more. In turn, the child employee displays more citizenship behavior, open communication, and support for the leader. However, when the parent–child relationship is of low quality, the child employee is more likely to be deviant (Eddleston and Kidwell in press). Research suggests that individuals who feel like they have little control in an organization and do not have a close relationship with their leaders are likely to feel little psychological attachment to the firm (Pierce et al. 2001). Regarding family firms in particular, when children are disregarded for their potential contribution to the firm, their commitment to the family firm suffers (Van der Heyden et al. 2005). Further, it has been suggested that children who feel their parent boss does not support them are more likely to display deviant behaviors (Bennett et al. 2005).

Additionally, the different relationships a parent–leader has with each child may play a role in predicting workplace deviance. Specifically, in the family psychology literature there is an ongoing emphasis on sibling relationships, parents' differential treatment of their children, and the child's adjustment process based on those factors. Children compare the way their parents behave toward them and their siblings from a very early age (Dunn and Munn 1985), and children receiving less favorable treatment from parents are more likely to develop behavior problems, anxiety, low self-esteem, and low relationship quality (e.g., Dunn et al. 1990; McHale et al. 2000; Kowal et al. 2006). A study by Richmond et al. (2005) revealed that as children were less favored than siblings over time, their external behavior problems increased. We suggest that favorable treatment of certain siblings over others continues from childhood into the operation of the family business based upon characteristics such as compatibility between parents and children involved in the business, perceptions of the child's competence and dependability, and the evolution of the parent–child relationship from adolescence to the establishment of the child's presence in the family firm (Eddleston and Kidwell in press). As a result, the parent–leader appears to play an important role in fostering, or hampering, workplace deviance in the family firm.

The popular press offers examples of how parent–leaders influence the behaviors of their employed children. For instance, in the family of famous winemaker Robert Mondavi, relationships suffered as the business prospered. Tensions stirred up by the family patriarch ran high between his sons, the more outgoing Michael, and the reflective Tim. Michael Mondavi recalled that his father would pit the sons against each other; in an unpredictable fashion, Robert Mondavi always identified one son as the hero and relegated the other to the penalty box. Michael said that although his father was a great businessman, Robert Mondavi lacked skills as a family person, and an emotional bond between Michael Mondavi and his father never developed (Howe 2005). Additionally, parent–child relationships may factor into sibling rivalries that can ultimately lead to the break-up of the family firm, as seen in the case of the Rosen family's retail liquor business in Chicago where a quarrel between two brothers eventually led to the business's sale to outsiders (Clifford 2007). These issues may also come into play when siblings decide to take on their parents for control of larger corporations, for example, the fight that broke out among the Redstone family for control of CBS and Viacom (Lenzner and Pendleton 2007).

7.7.2 *Ethical Climate*

Owners of a family firm strongly affect shared values within the firm, influencing goals, levels of trust, and other elements of organizational behavior (Vallejo 2009). As a company founder creates shared values and culture in an organization (Schein 1983, 1985), members of a founding family establish the firm's climate. Family firm leaders "establish the basis for ensuring an evolution and an organized and non-traumatic transfer to the following generation, as well as the strategy and organization allowing for growth, development, and the parallel expansion of the business" (Vallejo 2008: 271). The pervasive influence of family leadership also increases the relevance of ethical climate to the development of deviant and dysfunctional behavior in the organization as seen prominently in the Parmalat financial scandal involving the Tanzi family firm (Soltani and Soltani 2009).

Organizational climate "denotes the specific sets of beliefs and practices that are expressed and practiced by a group; many of these consist of what is expected" (Gordon and Nicholson 2008: 25). Ethical climate is an important way that employees gauge ethical behaviors at work based on normative systems known to firm members (Victor and Cullen 1988; Martin et al. 2009). Developing and maintaining family firm norms affect the behavior of employees of the family firm – family members as well as nonfamily members, following the proposition that employee actions can result from loyalty to the values espoused by the firm (Victor and Cullen 1988).

In considering dysfunctional and constraining behaviors of family members, ethical climate appears to be a key element because it has been associated with both employee misbehavior such as absenteeism, tardiness, and poor performance (Wimbush and Shepard 1994) as well as the ethical behaviors of employees (Fritzsche 2000; Treviño et al. 1998). Indeed, Vardi's (2001) study of organizational climate and misbehavior indicates that climate can have both positive and negative effects on the intention of an employee to behave negatively on the job. Gordon and Nicholson (2008: 8) noted the difficulty in avoiding family firm conflicts related to principles, values, and ethics by discussing the "extraordinary and irrational lengths" family members go in the pursuit of "what they believe is right. They will go even further when this is tied in with relationships – with personal attachment, envy, desire and self-esteem."

Family firm leaders who take a stewardship approach to firm governance (Eddleston and Kellermanns 2007) are concerned with developing the social and economic wellbeing of the firm through such mechanisms as greater participation in the strategy process, limiting unproductive conflict among members and establishing norms of family harmony in the firm. These elements of stewardship relate to a caring ethical climate, which focuses on attempts to maximize the mutual and joint interests of family members, but not at the expense of other family members. Some family members may reject this ideal, partly because of the negative effects of altruistic behavior on the part of the parents and leaders of the family firm discussed in the previous section (Chrisman et al. 2007; Schulze et al. 2001). These individuals

are more likely to make ethical decisions based on maximizing self-interest derived from personal norms. Ethical climate research indicates that in many firms one finds an instrumental climate stressing egoistic elements as well as a caring climate that reflects benevolence and local interests (Martin and Cullen 2006). This potential for climate conflict and its impact on the development of deviant and dysfunctional behavior in the firm is a fruitful context in which to examine relationships among individual perceptions, family interactions, and organizational level variables.

7.8 Bad Seeds in the Family Firm: Concluding Comments

Investigations into deviant and dysfunctional behavior in organizations have considered multiple levels of antecedents regarding such activities in organizations: individual, position, group, and organization (Vardi and Weitz 2004). Our consideration of deviance in the family business addresses these levels, but largely focuses on position and group factors, two circumstances that differentiate the family business from other types of firms. We have also touched on the importance of organizational factors such as leadership and climate and how these elements reflect unique aspects of the family business. In conclusion, we offer a few practical implications for family firm leaders regarding deviant behavior in the business as they move from start-up to child involvement and then to succession.

As parents treat their children differently as they grow, it is clear this treatment has ongoing effects on the child's behavior into adolescence (Richmond et al. 2005). Whereas we can only speculate on the linkage between such differential treatment and its effects on a child's interest in becoming part of a family business, we propose that the parent eventually will draw on the prior and ongoing relationship with the child, the child's level of competence, and the current situation to establish either a high-quality or low-quality exchange relationship with the child in the family business. The parent should be aware of how this exchange relationship develops and its implications for subsequent problems within the firm such as withholding effort, theft, aggressive behavior, and/or abuse of company funds. It may be a proper strategy for the owner to avoid some of these difficulties by recognizing a low-quality relationship and heading off trouble by encouraging the child's early exit from involvement in the business. Conversely, if a parent chooses to keep this child employed in the family firm, the parent may want to take steps to increase the child's perception of insider status, strengthening the child's bond to the family firm.

Although little academic research examines workplace deviance in family businesses, the media is riddled with stories of misconduct in family firms. Sometimes these actions relate to financial fraud, for example, the well-known story of Adelphia Communications and the Rigas family whose members used funds from the publicly traded firm as a personal piggy bank (Kidwell 2009). Embezzlement is another issue; this type of deviant behavior was exemplified by a $40,000-a-year accountant and nonfamily member who worked at a family-owned construction company and was convicted of stealing $6.9 million from her employer over a 6-year period. She

allegedly went on a massive spending spree that included buying a 104-acre Vermont ranch, several custom and antique cars, jewelry, and paying restaurant bills for complete strangers (Marcelo 2007). In more rare instances, deviance involves aggression and violence, such as the events that led to the suicide of Harvey Brown who was passed over for control of the family cleaning business due to a history of indifference, incompetence, and problems with drugs and the law. After picking the younger son Steven to run the firm but showering Harvey with undeserved gifts and attention, Brown's parents were brutally murdered in their New York home. Harvey Brown eventually became the chief suspect and then killed himself as the authorities sought to indict him in connection with the case (Pofeldt 2003).

Since research indicates that relationships among family firm leaders and their children can lead to severe problems in family firms (i.e., Chrisman et al. 2004; Lubatkin et al. 2005; Schulze et al. 2003) and less than 20% of family firms survive past the second generation (Gersick et al. 1997; Ward 1987), understanding how family firm attributes and their leaders may encourage bad seeds to deviate from family firm norms is a crucial element to firm success and survival. An important next step in this line of inquiry is to examine the role that these antecedent variables play in the interaction among family and nonfamily members in the same family firm.

7.9 What a Family Firm Leader Did: Solution at The Season's

Tony finally decided to confront Bobby, after Bobby had missed yet another scheduled shift. Tony went to Bobby's home to meet him. Bobby was sitting there watching television. Although Tony was outraged that Bobby had skipped work to watch television, he tried his best to remain calm. He asked his son, "How do you feel about The Season's? Do you want to work for the family business, or is there something else you want to pursue?" Bobby seemed to be waiting for an invitation to speak, because he quickly began complaining about his lack of importance to the business and how he felt his father and brother see him as incompetent. He remarked, "I have a prestigious business degree and you made me a bartender at The Season's – what an insult! Do you think that is all that I am capable of? The restaurant doesn't need me. It's probably better off with me sitting at home and just collecting my dividends from the business."

Tony was shocked. But he was also determined to try to find a place for his son in the business. Tony asked: "When you were going to school what interested you the most? Is there a job we could create that would get you excited to come to work and could contribute to the business?" Bobby explained, "I used to do the best in my marketing and advertising courses. I especially liked working in the sales department when I did my internship at the hotel. However, we don't need a sales department at The Season's." At first Tony nodded in agreement, but then he had an idea. Tony exclaimed: "There may be a perfect job for you! We definitely are not using

our banquet room as much as we could – I just don't have the time to properly advertise the facility or to work closely with clients to plan events. What do you say? Could you build up the banquet side of our business?" Bobby thought about it for a few minutes and then enthusiastically agreed. Right away he started offering ideas on how to advertise the facility, create a system for planning banquets, and manage events. After discussing the many possibilities for several hours, Tony rose from his seat and headed to the door. Bobby followed him. Then Tony looked at Bobby and said, "Son – this is your chance. I know you are smart and competent, and now is the time to show everyone what you've got. But you also need to make things up to your brother and the staff for your misconduct over the years. If you take this job, you need to prove your commitment to The Season's." Bobby interrupted his father: "I have an idea. What if I worked for commission? Then I'll be able to prove to everyone what a salesman I am. If I'm good, I should be able to make a decent salary – at least a much better wage than I was making as a bartender." Tony agreed. He got in his car and thought about all that his family had gone through. He hoped that this was a new beginning. On his way home, he started to envision how his two son's may actually be able to work side-by-side one day, Junior managing the restaurant, and Bobby in charge of the banquets. It was a dream he and his wife had always had, and now it may become a reality.

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Chapter 8
Double Roles, Double Binds? Double Bind Theory and Family Business Research*

Reginald A. Litz

8.1 Opening Vignette: Mixed Up by Mixed Messages?

Thor Thiessen was confused. He had done what he had been asked to do and now was effectively being told his work was unnecessary. He was understandably frustrated and wondered what, if anything, he should do, both in the short-term and in the longer-term as he contemplated his future role in his family's business.

Thor had grown up in a family that owned and managed a family business. The company, a leader in the design and manufacture of a specialized electronics product, had been founded during the go-go years of the personal computer industry by Thor's father, Thurston. The company was effectively his dad's "baby," as he was still very much involved in the day-to-day running of the business. From the time Thor could remember, being part of the family was inseparable from being part of the family's business. Whether it was helping out on the shop floor after school, or helping hand out gifts to the employees' children at the firm's annual Christmas gathering, or stuffing envelopes with the company's catalogs, being part of the Thiessen family meant being part of the Thiessen family business.

Not surprisingly, Thor's early career strategies had been largely influenced by the family's expectations and desires that he join the family business. Now 27 years old and 3 years on the job after having graduated from his undergraduate studies in business administration, his job title was "Special Assistant to the President"; in practical terms, this had meant doing whatever special jobs his Dad wanted done.

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While he appreciated the job he'd been given, Thor was becoming increasingly bored at the business. However, while underworked, he was also overpaid, which he attributed in no small measure to his special status as the "boss's son." In short, he could effectively "goof off" most of the time and still get a great paycheck. However, despite the financial perquisites, Thor was restless. He wanted to make his mark in the world, but sometimes wondered if the family business was the place to make it. He'd voiced his frustration once over a weekend dinner with his parents. In response, Thor's mother, Thelma, had encouraged him to go out and identify some growth opportunities. Thurston had supported his wife's idea and suggested Thor consider attending an upcoming industry conference.

Thor had done exactly that. He came away from the conference with three great opportunities. The first possibility involved opening up a new market in the western part of the country, which had to date provided only a few fragmented orders. The possibility emerged from a couple of off-hand comments made by purchasing representatives from companies that had recently ordered the company's products. In short, these reps stated there was an enormous market for the company's products that had been largely overlooked. The second possibility involved a joint venture with a foreign manufacturer that currently sourced Thiessen's products as a component for their own product. According to one of the company's design engineers, the manufacturer was interested in adapting Thiessen's product for a new hybrid idea, which could potentially revolutionize their industry. Thor was especially encouraged by this alternative as capital requirements were minimal. The third opportunity was, however, the most exciting as it centered on redesigning one of the company's products for use in the emerging wind turbine industry. Thor was especially interested in this option as he had developed more than a passing interest in green technology.

Lots of opportunities – the question was which one, or ones, to pursue. Thor was excited as he drove into work the morning after he got back from the conference. After getting settled back into his office, he called his father to see if he had time to hear about the conference. His father, who seemed less than completely enticed by Thor's enthusiastic tone, agreed to meet just after lunch. The meeting did not go well. As Thor reported on the different opportunities he had encountered, he was increasingly dismayed by his dad's response. His father, who had often been the lead cheerleader for other growth initiatives, which in principle were not all that different from what Thor was presenting, was noticeably aloof and distant. He did not ask a lot of questions and repeatedly responded by saying "What do I need that for? We already have more than enough."

Thor came away from the meeting flabbergasted. He'd been encouraged to go look for opportunities that might allow him to "take the company to the next level," but now felt as though his knees were being cut out from under him, resulting in *him* going *down* a level. It was not a pleasant feeling. What troubled him even more, however, was an off-hand comment his father had made as he exited Thor's office. "Don't I pay you more than enough already?" he'd quipped under his breath. Thor's reflex interpretation had been more than slightly disturbing: "Just be a good boy, let the family business take care of you, and don't make too many waves." Thor felt

frustrated and confused. And as he thought a bit more about it, he realized it was not the first time. Here and there over the past few years, he'd encountered the same sort of passive put-downs from his father whenever he had tried to make his mark.

Thor was not sure how to proceed. At one level, he was confused, being told one thing at one moment and then another thing later on. However, things were also a bit more complicated. More specifically, he and his wife, Thalia, had recently purchased a brand new house, made possible, in large part, by his hefty paycheck. If he were to leave the business, how would he meet his monthly mortgage payment? Complicating the mix even further, he and Thalia had a growing family. The couple's first child, Thaddeus, had been born the previous year with baby number two due in just a couple months.

Thor felt like he was being given two messages; one to "make his mark" as a businessperson; the other, to "stay within the markings" of what his father had already accomplished. He was not looking forward to Sunday dinner at his parent's house. He wondered what, if anything, he might do.

8.2 Introduction

> Her father was always asking her when she planned to given him a grandchild. When her son was born, her father then kept asking her to hurry back to work (Cole 1997: 364).
> Many could-be heirs are caught in the entrepreneurial double bind. Mixed signals from the owner-manager/parent have given them conflicting goals. On the one hand, the heir receives explicit verbal encouragement from the parent to join the firm. On the other hand, a lifetime of parental behavior has established a diametrically opposed message: successful people don't need to join some else's organization; they blaze their own paths (Rogal 1989: 248).

In 1956, Gregory Bateson and his associates changed the way people thought about schizophrenia (Bateson et al. 1956). They proposed that this mental malady resulted not only from genetic predisposition, but also from schizophrenic's family system. In their work, which explored the dysfunction's special relevance for parent–child communication, they posited that individuals developed schizophrenic tendencies because they were part of a fundamentally flawed communication system. They called this flawed context a "Double Bind" insofar as the individual caught within it faced a "no-win" situation.

While the framework received mixed empirical validation, it nonetheless received widespread acclaim and sparked no small response as evidenced by a diverse array of articles (e.g., Sluzki et al. 1967; Weakland 1974; Eliott and Forker 1976; Roy and Sawyers 1986; Hennestad 1990), books (e.g., Jamieson 1995; Cooper 1996), and a special conference on the 20th anniversary of the theory's introduction (Berger 1978).

To date, limited consideration has been given to double bind theory's potential relevance for the coexisting realms of the family business and the business family (notable exceptions include Salganicoff 1990; Cole 1997; Grote 2003). This omission is somewhat surprising given the double-faceted nature of the family–business interface, which straddles *both* the social and economic realm. As we shall argue,

this dual-faceted context appears especially predisposed for double bind-intensive intergenerational communication because the key actors, that is, the parents and their children, are motivated by different roles in each of the subsystems of family and business, which potentially manifest in conflicting demands.

We undertake our exploration of double bind theory's relevance for family business research as follows. First, we revisit the key ideas undergirding the general proposition put forward by Bateson et al. in their seminal article. Before we explain why this framework might be especially relevant for the field of family business, we revisit a recent conceptualization of the family business (Litz 2008), which includes *both* the family business and its coexistent entity the business family. Drawing on the logic of the primal institutions of family and business, this framework asserts that the defining characteristic of the family business and business family is *interdependence*, as manifest in intersystems transfers whereby one system's outputs become the other system's inputs.

Utilizing this conceptualization as a grounding framework, we then contemplate the conditions under which this interdependence might set the stage for double bind-contaminated communication. We then revisit our opening vignette, and the specific dilemma faced by Thor; we also present two other examples where double bind-contaminated communication is reported to have occurred between parents and their adult children in business together. Next, we consider the research-related implications of double binds. Simply said, why should family business researchers be concerned if parents communicate in double binds to their children? We conclude by proposing possibilities for researchers interested in exploring further what a double bind-based perspective might mean for the worlds of the family business and business family.

8.3 Theoretical Context

8.3.1 Conceptualization: Double Bind Theory

In 1956, Bateson and his team of colleagues published a paper in *Behavioral Science* that made a rather outlandish assertion concerning the origins of schizophrenia. Their proposition: that schizophrenia was not simply determined by genetics, but was also influenced by the schizophrenic's family environment. Said more succinctly: some families were, according to Bateson and company, effectively "crazy-making" relational entities. More specifically, these researchers asserted that schizophrenia was encouraged by a communication disorder that they called the "double bind," and which resulted from the proximal occurrence of six conditions.

The first condition was that the relationship involved two or more persons. Second, that these people be involved in a repeated intensive experience, that is, a significant long-term relationship. The third condition was that one of the persons, specifically a parental figure, issue a "primary negative injunction" in one of two forms – either as: "(a) Do not do so and so, or I will punish you, or (b) If you do not do so and so, I will punish you" (Bateson et al. 1956: 253). However, the fourth

condition involved a second injunction that in some way conflicted with the first, but which was communicated at a more abstract level. The fifth condition was that the recipient of the two messages be prohibited from either commenting on this contradiction or exiting from the situation. The final condition built on the previous five and proposed that once the larger pattern associated with these characteristics was internalized by the recipient as "normal," they would learn to see their world in "double binding patterns," that is, as a confused set of contradictory demands that they could neither challenge, nor exit from. One cognitive outcome attributable to this way of seeing the world, Bateson and his team hypothesized, was to develop schizophrenic cognition patterns.

While definitive empirical support for the double bind framework has not yet materialized, Bateson et al. description of the basic logic underlying this illogical pattern provoked a diverse and ongoing stream of work. For example, one piece, by Sluzki, Beavin, Tarnopolsky and Veron, contemplated what happens to those caught amidst this "form of paradoxical injunction" (Sluzki et al. 1967: 494). They proposed four generic responses: (1) comment, (2) withdrawal, (3) acceptance, and (4) counterdisqualification. *Comment* involved "any form of request for clarification of or explicit comment on the incongruence in the messages imposed" (1967: 501). Sluzki and his associates proposed that if the recipient of the message could issue sufficiently strong meta-communicative statements, that is communicate about the discordant nature of what was being communicated to them, and these counter meta-communications could be "made to stick" (1967: 501), double binding would not occur.

In contrast, *Withdrawal,* as manifest in silence and a refusal to interact further, was seen as a second option, but one that had limited effectiveness, because "if withdrawal is extreme or continued, it must be effected in such a way as to deny that it is occurring" (Sluzki et al. 1967: 501). In contrast, a third response, *Acceptance,* involved choosing one level of the disqualifying message and responding to only that message while ignoring the other. Sluzki et al. posited one final response, which they called *Counterdisqualification*, that is, a communication that denies it is a communication. Not surprisingly, they saw this response as only further increasing the confusion about the subject at hand resulting in a "bizarre succession of redefinitions" (1967: 502).

Other work considered the practical effects of experiencing a double bind. For example, Bateson (1978) proposed that experiencing this confusing form of communication was likely to result in either panic or rage; Eliott and Forker (1976) similarly proposed a significant increase in stress. In their experimental studies of individuals experiencing double bind-intensive communication, Roy and Sawyers (1986) studied cognitive, emotional, and meta-communicative responses of individuals exposed to messages characterized by inconsistency and ambiguity. More specifically, subjects were exposed to a series of messages consisting of pictures of a mother interacting with her child accompanied by one of four different taped messages: (1) an inconsistent negative message (i.e., negative words said with a positive nonverbal tone), (2) inconsistent positive message (positive words and negative nonverbal tone), (3) consistent positive message (positive verbal and positive nonverbal tone), and (4) consistent negative message (negative verbal and a

negative nonverbal tone). After hearing each of the messages, subjects were asked to assess whether they thought the mother was happy or angry with the child. Roy and Sawyers's measures included the subject's heart rate, as a measure of perceived stress, and selected nonverbal movements typically associated with feelings of uncertainty, ambiguity, and nervousness (drawing on the work of McGrew 1972). In addition, they also measured the gap from the end of each of the messages and the beginning of the subject's response as a proxy for the subject's perception of the message's inherent complexity. The study's core finding showed that "in terms of physiological measure of heart rate and the specific nonverbal movements of extremities, inconsistent (positive and negative) messages were experienced as more stressful than their respective consistent counterparts" (Roy and Sawyers 1986: 399). Roy and Sawyers interpreted this finding in support of Bateson et al. original double bind hypothesis, namely that communication characterized by double bind-like inconsistency was "associated with subjective distress" (1986: 399).

In summary, then, double bind communication is communication characterized by contradiction, constraint, and confusion; *contradiction* insofar as it contains two discordant messages, *constraint* insofar as the recipient of the message is unable to either challenge or evade the message's contradictory nature, and *confusion* insofar as the recipient comes away in a state closer to "disorientation rather than enlightenment" (Bateson et al. 1956: 253) that ultimately culminates in a "breakdown in [the] individual's ability to discriminate between Logic Types [i.e., different types of communication] whenever a double bind situation occurs" (1956: 254).

But why, and how, might this communicative conundrum have special relevance for the world of the family business? In order to answer this question, we first revisit a recent conceptualization of the family business and its coexistent entity the business family.

8.3.2 Conceptualization: The Family Business and Business Family as a Single Entity

What exactly is a "family business"? In 1988, Ivan Lansberg and his editorial team posed this question on the first line published in *Family Business Review*. In short, Lansberg et al. asserted it was easier to recognize a family business than articulate a specific definition. This was because family businesses included potentially everything from the smallest "mom n pop" outfit (Cooper 1978) to the largest transnational conglomerate (e.g., Cargill, see Broehl 1992). Likewise, family involvement was equally diverse and included everything from the involvement of a single generation, such as a spousal couple or siblings, to any one of several forms of multiple generational involvement, such as a parent working together with one or more of their children.

Recently, Litz (2008) took a different tack in addressing the definitional question. In order to understand the family business, he asserted that we must begin by understanding the generic nature and distinctive purposes of the family as a social entity

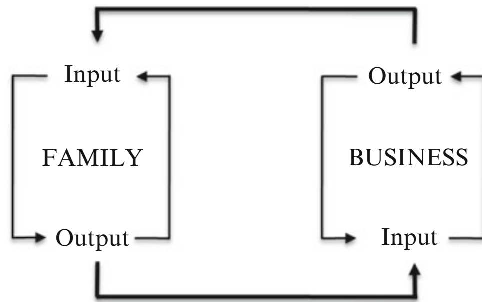

Fig. 8.1 The family–business and business–family as a single entity

and the business as an economic entity, respectively. Whereas the family exists to facilitate the development and growth of its members, a business exists to serve the needs of its customers. Each system is likewise directed toward different outputs; whereas the work of the family is oriented to the formation and nurture of relationships, the firm is dedicated to the generation of transactions. Following this logic, each system may therefore be said to "work" to the extent it satisfies its generic purpose. Families may be said to "work" to the extent its relationships are judged as sufficiently functional; businesses may be said to "work" to the extent they create a sufficient volume of transactions that realizes some minimal threshold of profitability. How then does a family business come into existence? Starting from this two-system approach, a "family business" and a "business family" come into existence at one and the same time when one system's outputs are transferred to the other system to become its inputs (Fig. 8.1).

And what might such transfers look like in actual practice? Consider the case of a family member who recruits another family member to work in their business, such as happens every time a parent gets one of their children to stop by the shop on the way home after school. As this activity generates sales, which in turn produce profits, and a portion of these profits return to the family, either via wages paid to the child or reduced expenses not paid to nonfamily, they help meet the family's economic needs. In such instances, the firm is a *family* enterprise in two different ways; first, by virtue of its dependence on human resources originating in the family, and second, because of the nature of the beneficiary of its transactional activity.

Or consider a less tangible transfer in which a firm derives a significant portion of its organizational identity from its owning family, in turn sustains its identity as a family through the company's successful operations. In this second situation, the firm is also a *family business* insofar as it derives the resource of identity from a familial unit; likewise, the family is a *business family* because it derives a significant part of that which is central, enduring and distinctive about itself as a family from its connection to a business (Albert and Whetten (1985)

In situations such as these and countless other variations, Litz proposed that a family business and business family exist concomitantly because the two systems influence and in turn are influenced by the other. While there is enormous variation across firms in terms of the scale and scope of these transfers, the cardinal characteristic

of interdependence, which occurs when two subsystems that are oriented to fundamentally different generic purposes connect, is a constant across all variants.

Following this logic, Litz also proposed that a family business and business family are in fact better understood as conjoining parts of a *single* larger entity, which he called the “House.” The house, he argued, is a especially appropriate construct given its orientation to both social units, such as the family tree, household, and tribe, *and* economic units, such as the firm, company, and firm (Lexico Publishing Group 2005). Following this line or reasoning, he asserted that family business research is in fact the study of houses, that is, why houses – such as the “House of Getty” (Miller 1986), the “House of Nomura” (Alletzhauser 1990), or the “House of Barings” (Ziegler 1988) – rise, stand, and/or fall.

Several implications followed from adopting a house-based view. First, it suggests that family business research is in fact a de facto study of houses. Second, a house-based view implies that the dynamics of *both* the family and business subsystems are potentially important insofar as the fate of *each* system is inextricably tied to the *other*. Therefore, to the extent the family is able, or unable, to function as a family, the business’s ability to function, or not function, as a business will potentially be impacted; conversely, to the extent the business is able, or unable, to function as a business, the family’s ability to function, or not function, as a family may be also affected.

But what might this mean for the individual stakeholder participating in this complex organizational form? At a bare minimum, it means that the individual is connected to two different systems, one oriented to the emotional logic of the relationship, the other guided by financial logic of the transaction. And what might happen if these two logics *conflict*, such as occurs in the dilemma posited by Bateson et al.? We now begin to consider this possibility.

8.3.3 Conceptualizing Double Binds in the Family Business and Business Family

To this point we have reviewed the dysfunctional nature of double bind communication. We then proposed that this communicational malady could be relevant for the organizational entity known as the family business by virtue of its double-faceted orientation to consider both the interests of the family and the business. We then reviewed recent conceptual work on family business that conceptualized this interdependence as resulting from two different systems oriented to two different purposes being inextricably bound together whereby one subsystem’s outputs become the other’s inputs. Finally, we also proposed that this interdependence could be problematic when the needs of the two systems in some way collide.

We now consider what this “collision” might look through contemplation of a hypothetical example. Our example takes place in a family business owned by a controlling owner (Gersick et al. 1997) who is also the firm’s senior manager. Assume further that this owner–manager employs their adult child as an employee. Concerning the adult child employee: Let us assume that the child has come to

the family firm as a "fall back option" and has spent most of their working career at the family business. Furthermore, we also assume the adult business child has limited educational or career qualifications for working outside the business, and further that this employee is comparatively overpaid for their contribution to the firm with overpayment arising from their parent's altruistic motives (Lubatkin et al. 2005). In terms of the business child's commitment to the firm, we hypothesize that such an individual would likely be motivated by what Sharma and Irving (2005) call "imperative commitment," that is, "a feeling of self-doubt and uncertainty of the ability to successfully pursue a career outside the family business" (p. 19). According to these researchers, individuals characterized by this mode of commitment perceive that they lack practical alternatives to working in the family business, resulting in a mind-set characterized by a "need to" work at the family business.

As it concerns the parent–owner–manager: Assume that the parent desires to be afforded parental respect and deference by their child, while also wanting the child to grow up and one day assume leadership within the company. Let us further assume that the parent is unable and/or unwilling to either temporarily, or permanently, relinquish control over the firm. Sonnenfeld (1988) documented both such occurrences in his case-driven typology of four chief executive departure styles. Those cases where the CEO was unable to even temporarily relinquish power he named the "Monarch," while those where the CEO was able to relinquish control, but then rushed back into power at the first sign of any problem, he called the "General." We also make one final set of assumptions – that the senior actor's desire to be deferred to as parent and their simultaneous desire for their employee to demonstrate leadership within the firm in some way conflict, and further the parent–owner–manager is either unaware of this conflict, or if aware, is unwilling to relinquish either of these demands.

Given this set of assumptions, we assert that the stage is set for child employee to be caught in a double bind. In terms of the characteristics proposed by Bateson et al., the situation involves: (1) at least two people, in this case the parent–owner–manager and the child-employee, (2) these two people are involved in a significant long-term relationship, in this case a double-faceted one that includes both family roles (i.e., parent–child) and business (i.e., manager–employee) roles, and (3) the child employee perceives that they are unable to leave their job because of their limited earning power outside the family business. Given this postulated framework, what then might it look like if the parent–manager–owner communicated conflicting directives toward their child employee? We now consider this possibility by revisiting our opening vignette.

8.3.4 Revisiting Thor's Dilemma

While there are some obvious points of contrast between Thor's experience and that of our hypothesized example, including that Thor not having come into the family business as a "fall back option," he is nonetheless now a part of the 'House of Thiessen'.

Likewise, while he has not spent his entire career in the family business, given the early direction of his career trajectory, he quite easily could. According to the scenario, Thor is admittedly overpaid for what he does, and as it concerns what he does, he doesn't really appear to be actually doing a whole lot. While he successfully passed the important qualifying test (Lansberg 2007) of completing his university education, he appears to have entered the business out of duty, that is, normative commitment (Sharma and Irving 2005), combined with a lack of life direction concerning what he wants for himself. In short, he has to some extent taken the easy way, but an easy way that is now showing signs of making its hard costs increasingly evident.

This collision course manifests in an apparent tension between a healthy drive to individuate (Stein 2005) and an unhealthy set of parentally induced growth constraints, which arise from a father who at the same time wants his son in the business, but who also does not want the business to change or grow because of that son's initiatives. While the parent–boss may, or may not, be aware, he is sending discordant messages to the son-employee.

Drawing on the logic of Bateson et al. general proposition, we predict that something has to give – either Thor's dreams of making his mark within the business, or his father's unwillingness to give his son the freedom to make that mark. However, the situation is also a bit more complicated, as Thor's growing family seeks to continue to enjoy the family business-sponsored life to which they have grown increasingly accustomed.

8.3.5 An Isolated Occurrence?

This previous incident is admittedly but a fictional incident created to illustrate the core dynamics of the double bind dilemma. But could there be other examples more grounded in the actual realities of family business practice that might illustrate similar quandaries? In our review of extant family firm literature, we encountered two specific examples, which we present for the reader's consider.

The first, mentioned by Rogal (1989), concerns the double message sometime received by children of entrepreneurs. Reconsider his description of the no-win situation that arises from the mixed messages of organizational conformity and entrepreneurial initiative:

> Many could-be heirs are caught in the entrepreneurial double bind. Mixed signals from the owner-manager/parent have given them conflicting goals. On the one hand, the heir receives explicitly verbal encouragement form the parent to join the firm. On the other hand, a lifetime of parental behavior has established a diametrically opposed message: successful people don't need to join some else's organization; they blaze their own paths (Rogal 1989: 248).

In terms of Bateson et al. six symptoms, in such situations the parent has issued a "primary negative injunction" in the form of "Do not work outside of the family business," while also communicating a second injunction that "If you want to be

really successful you must not work within an established business (including the family business), but must make your way as an entrepreneur." To the extent the child employee perceives a conflict between these two messages and does not challenge their inherent incompatibility, while also assuming the impossibility of exiting the family business, they are effectively caught in a double bind.

The second example concerns the conflicting expectations often faced by daughters working in family firms. According to Salganicoff (1990), the role-related expectations for women, particularly daughters, working in family businesses are often fraught with double binds with prime examples of such conflicted expectations including double-barreled exhortations to: "'Dedicate yourself fully to the business, but give the family children;' 'Be independent and autonomous and behave like a businessman, but be dependent, take care of the family, and behave like a mother;' [and] 'Do not take business home, but let's talk shop tonight'" (1990: 133). Hollander and Bukowitz write that such expectational overload leaves many daughters in a quandary "in which both conformity and nonconformity carry penalties and rewards" (1990: 145). While this resonates with a larger pattern in which women are expected to contribute more to the family regardless of their career demands (Hochschild 1989), it also suggests a special strain of conflicting gender-specific expectations experienced by younger females working in family businesses.

And what consequences might accompany the experience of such binds? In the next section, we reflect on this question. We do this by first drawing on extant literature concerning the implications of double binds for organizations in general; we then take this logic a step further by considering implications that might be especially likely for families in business together.

8.4 Implications

To this point we have reviewed the key ideas of the communicational conundrum known as double bind theory and the defining characteristics of the organizational form known as the family business. We then argued that family businesses might be especially prone to this form of dysfunctional communication because of the merging of family and business roles. We then contemplated a hypothetical scenario in which the characteristics posited by Bateson et al. occurred in the context of a relationship involving a parent and child in business together. We then applied these ideas to our opening vignette and offered two further examples of double bind communication between parents and children in family business settings.

But so what? Said differently, might there be significant consequences of such occurrences? We answer this question in the affirmative. More specifically, given recurring mention of the high mortality rate of family businesses, which estimates only three in ten family firms continuing on to the second generation and only one in ten continuing on to the third generation (Kets de Vries 1993), we assert that such communicational "Catch-22's" (Heller 1961) may indeed contribute to compromised family firm fitness. We now explain why. We develop our answer by first

drawing on Argyris and Schön's (1974, 1978) work on double loop learning. Next, we integrate the concept of double loop learning with double bind communication and consider the resulting implications for organizations in general. Then we turn to the specific context of family business.

8.4.1 Implications of Double Binds for Organizations

According to Argyris and Schön (1974, 1978), every organization needs two key learning competencies. The first, which they called *single* loop learning, involves detecting and responding to error by identifying the problem and enacting an alternative strategy that works within a predetermined variable set. For example, if a sales target is not being met, one possible response might be to increase advertising expenditures in order to help reach the target. The second learning competency relates to what Argyris and Schön called *double* loop learning. This involves a fundamentally different approach. More specifically, it involves questioning whether the *right* variables are included in the mix, and if they are, whether they are *appropriately* configured. In terms of the previous example, a double loop-oriented response might involve asking whether the product is appropriate for the market, rather than proceeding from the assumption it is.

Argyris and Schön (1978) explain the distinction between these two modes of learning using a thermostat as guiding metaphor; whereas "single-loop learning is like a thermostat that learns when it is too hot or too cold and turns the heat on or off" (pp. 2–3), double loop learning occurs when a gap in temperature is detected and corrected by questioning and then changing the thermostat's temperature setting. This distinction is important because of what happens when a message carries within it an implicit contradiction, such as directions to turn the heat *both* on and off. In such instances, any attempt to do *both* is essentially doomed. And if the recipient is also unable to challenge the message's inherent contradiction and at some point exit the situation, the situation is only exacerbated.

But what might such occurrences mean for an organization's ability to function? According to Hennestad (1990), the end result of double bind communication is an organization that becomes frozen in time. He describes this state more fully, noting that in such situations it becomes impossible to find out "what is really going on, thereby making it impossible to learn to discriminate between messages in the future" (1990: 268). This becomes a critical liability because "the organization has lost or seriously damaged its ability to learn from experience and correct errors." Being a "good organizational citizen" then becomes increasingly problematic as "members themselves contribute to the reproduction of the phenomenon through a type of vicious circle" (1990: 273).

In essence, the organization becomes "increasingly incapable of higher-level learning (double loop, second order), [and] instead becomes 'better' and 'better' at doing the same thing [i.e., single loop, first order], precisely because norms, frames of understanding and policies are not evaluated or altered" (Hennestad 1990: 276).

Neither is the longer-term prognosis for such patterns encouraging. More specifically, Hennestad envisions such unthinking adherence to the past resulting in stagnation and decline, writing that the "lack of authentic dialogue … could freeze the horizon of meaning in the organization, thereby rendering infertile the soil of growth of vitality for organizational dynamics" (1990: 278).

8.4.2 Implications for Family Businesses

Thinking further, what might this mean when family is involved? In the spirit of Hennestad's work, we see a particularly ominous possibility for the adult business child. In short: by virtue of their inability to challenge or exit from the conflicting demands being made upon them, the adult business child becomes captive to the unresolved cognitive contradictions of the parent. Furthermore, to the extent the message's recipient, that is, the adult business child, internalizes the double bind, they become increasingly likely to perceive their world in double bind patterns. To revisit our opening vignette, Thor is left feeling confused, unproductive, and trapped; confused because he is not sure what he should do, unproductive insofar as he is prevented from engaging in purposeful self-actualization, and trapped insofar as he is dependent on the firm to sustain a desired level of material sustenance and comfort.

Suffice to say, this does not bode well either for the next generation's psychological development, or for their maturation as the firm's future leaders. Because they have been beholden to, and shaped by, contradiction, their sense of reality becomes increasingly distorted, thus making it increasingly difficult for them to either lead the firm in facing the outside world, or to function outside of the insular cocoon of the family firm. This unfortunately does not either enhance the personal development of the next generation or the prospects of the firm that the same next generation might one day lead.

8.5 Discussion

But why should family business researchers bother themselves with double binds? We see at least two reasons. The first relates to the special challenge of family firm sustainability. If family businesses are to persist as family-intensive entities, they need to be aware of their special points of vulnerability. One such point of susceptibility, we contend, relates to the challenge of communication. In short, we assert that stakeholders in family businesses need to: (1) understand their two distinctive roles in family and business, (2) appreciate the different demands and expectations arising from each role, (3) be open to perceive the potential conflict arising from these differential demands, and (4) develop the psychological and relational resources necessary for addressing these conflicts.

A second reason is motivated by concerns for the psychological health of the individuals working within family businesses. Just as family businesses and business families as houses face a special set of problems concerning their sustainability as complex family-intensive entities, so too individuals working within these houses face a parallel set of individual-level challenges, particularly as it concerns their growth and individuation as persons (Stein 2005). These challenges include recognizing that they can't ask all things of, or be all things to, other family members. Based on these two rationales, we also encourage further research on double binds in family firms. Two specific suggestions follow as to possible avenues researchers might consider exploring.

8.5.1 Unbinding the Bind, Unknotting the Knot: Resolution Strategies

One avenue could involve examining how younger generations deal with parentally issued double binds. Simply said, how do adult business children respond to the contradictory demands made by their parents as owner/managers? One way to explore this problem might involve use of metaphor, specifically that of a knotted rope (Wynne 1978). Experiencing a double bind, Wynne asserts, is like holding two ends of a rope with a knot in the middle, which interferes with the rope's functioning. The rope-holder's challenge, he asserts, is to figure out how to restore the rope's functionality by removing the knot, rather just sliding it further along the rope. Simply sliding the knot along, Wynne notes, is ultimately ineffective as the knot is *not* the rope. The knot is merely a *pattern*, with the rope as the context that renders the pattern visible.

So how then might the knot be removed? One solution is to let go of one end of the rope, slide the knot through, and then take up the loose end again. This solution, while admittedly metaphorical, nonetheless suggests one possible way to deal with double binds. Just as the solution is to "temporarily" let go of one end of the rope, one solution might be to at least temporarily relinquish one of the roles, of child or employee, to resolve the contradiction and then assume the role again. But does this analogical solution have real world validity? Said differently, how easily can a business child "let go" of one role and then take it up again? Further research involving in-depth interviews and case studies could clarify the practical relevance of this resolution strategy.

8.5.2 When Binds Can't Be Unbound, When Knots Can't Be Unknotted: Endgame Strategies

In Heller's 1961 novel *Catch-22*, an interesting conversation transpires between a Major Danby, and the story's central character, Captain John Joseph Yossarian,

concerning the latter's plan to flee the double bind situation he finds himself in. We now join their conversation:

> 'But you can't just turn your back on all your responsibilities and run away from them,' Major Danby insisted. 'It's such a negative move. It's escapist.'
>
> I'm not running *away* from my responsibilities. I'm running *to* them. There's nothing negative about running away to save my life (Heller 1961).

Yossarian's response points to a second avenue for further research – namely to explore those situations where double binding may have gone past the point of no return, that is, where the individual is unable to challenge the double bind dilemma while remaining within the family firm.

We assert such a scenario is possible based on Kaye's (1996) observation that family businesses can, at times, become the equivalent of a family-sanctioned sickness. Beginning from the assumption that "the function of normal parenthood is to develop independently self-supporting offspring" (1996: 355), Kaye reports that in a significant number of his encounters with family firms he observed significantly deficient ego development on the part of the elder generation. This led him to conclude that "parents whose own ego development is inadequate tend to create family-shared apprehensions about individual differentiation, and … thus may be inclined to use a business … (unconsciously, and tragically) as a growth-retarding drug" (1996: 348). The real tragedy, Kaye further conjectured, was "where owners use their business to retard the normal development of their *children* and themselves" (1996: 348, emphasis added). In such circumstances, he wondered whether the appropriate objective was *not* to find ways for the younger generation to *succeed within* the business, but to find ways for the younger generation to be *liberated from* the business. However, given earlier mention of continuity statistics that implicitly assume continuity as normative, observations such as Kaye's suggest that before asking *how* a particular family firm can continue, a more pertinent question may very well be to ask whether it *should* continue.

Kaye concluded his contemplation with the appeal that "we need a theory about how [these sick family businesses] got where they are and what got them stuck" (1996: 358). In the spirit of his appeal, we see double bind theory as having a special role to play in unraveling these enigmas. Likewise, we also see a special role for longitudinal methods (Barley 1995) in which gradual changes in variables relating to both collective context and individual characteristics are explored in helping understand the double bind's emergence and individual-level effects.

8.5.3 The Role of Compensation in Double Binding

Given the hypothesized significance of succeeding generation's commitment (Sharma and Irving (2005), we would encourage further work on the potential complicating role of compensation in family firms. More specifically, drawing on the organizing frameworks of Milkovich et al. (2011), we envision important contributions on the relevance, and potential irrelevance, of conventional compensation

logic such as "Pay-for-performance." Simply said, what, in the presence of double bind-contaminated communication, constitutes "performance" (March and Sutton 1997)? Silence? And at what cost, for firm fitness, personal character, and/or interpersonal relationships, is such "performance" achieved? One way to study such questions could involve studying silence, or more particularly *conspiracies of silence*, "whereby a group of people tacitly agree to outward ignore something of which they are all personally aware" (Zerubavel 2006: 2). How do such conspiracies emerge in family firms? How are they exposed and challenged? Finally, why and how do some family firms move beyond them, while other remain captive?

8.5.4 The Role of Context

Researchers could also explore the cultural conditions under which it might be more, or less, likely to encounter family firms plagued by double bind dilemmas. One approach for answering this question could come from considering the family firm's surrounding culture. Hofstede's classic five-dimension conceptualization of culture (Hofstede et al. 2010) provides a helpful starting point. Drawing on this framework, we propose that double binds would be more likely to occur in cultural contexts characterized by greater, rather than lesser, *power distance*, insofar as children would be more likely to defer to parental hierarchy. Likewise, we would anticipate a similar pattern in cultures more oriented toward *collectivism*, insofar as family members would be inclined to see themselves as part of a larger collective, which might, in turn, make the business child's exiting all the more problematic. As it concerns the business child's likelihood of leaving the business, we anticipate that this would less likely in settings characterized by higher levels of *uncertainty avoidance* as the younger generation would be less willing to face economic insecurity without the "fall back option" of the family business. Finally, we hypothesize that cultures characterized by a *long-term*, vs. short-term, orientation would manifest in a tendency by the younger generation to remain with the firm in order to fulfill their perceived long-term commitment to the family and its business.

8.6 Conclusion

John Weakland, one of originating team members who first proposed the double bind dilemma in 1956, later wrote that the pioneering work was best understood not as a definitive theoretical statement but "more an opening wedge, proposing a new way of conceptualizing and observing old problems" (Weakland 1974: 3). In the spirit of Weakland's reflection, we have sought to use double bind theory as "wedge" for opening up new ways for understanding the special worlds of, and problems faced by, family businesses and business families. To the degree this "wedge" helps the reader

better appreciate these special worlds, we recommend it for better understanding the complex and potentially contradictory demands that arise from the double roles that so often define the family business and business family.

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Chapter 9
Power and Learning in the Dynamics of Family Business Development

Richard T. Harrison and Claire M. Leitch

9.1 Introduction

Within the field of entrepreneurial learning research, there is growing recognition of the need to consider the influence of power on the learning process itself (Harrison and Leitch 2008). However, there has been little attempt to develop these issues in the family business context specifically. While family business studies have examined various elements of conflict, role confusion and organisational performance (Poutziouris et al. 2006; Berkel 2007), they have neither set this in the context of the analysis of learning processes and outcomes nor related these discussions back to the wider debates on the role of power in organisations. In this chapter, we contribute to the small number of studies which do examine these issues (Nienelä 2004): the dynamics of the family business present a rich opportunity to examine such topics, combining as it does the process of business development in general with the specific overlay of family issues, both within the family members and between family members and non-family executives in a venture.

While definitions of a family firm differ, there is widespread agreement that it is one in which ownership and management are concentrated (to varying extents according to the specific definition) within the family (Arregle et al. 2007). However, there is a shift away from such demographic-based definitions to consider a wider range of factors, including influence, involvement, intention and vision (Lumpkin et al. 2008). The focus on these issues is increasingly associated with a shift in the nature of the research questions being asked in family business studies. Among these are questions of strategy and control, notably "how does the fact that a business is a family business affect decisions about how to operate the business?" (Lumpkin et al. 2008: 127). Two consequences follow from this interest in strategy

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and control, and these form the basis for the approach taken in the remainder of this chapter. First, the research agenda in family business studies is incorporating more mainstream management research by adapting theoretical frameworks developed in other contexts; and second, as Lumpkin et al. (2008: 127) have made clear "researchers also need to be investigating what sort of intention, how much involvement, and whose vision matters". In other words, to the extent "that current research aims to get to the heart of why family business exists and what makes them distinct, understanding the intentions, values, and involvement of individual family business members is an important research objective" (Lumpkin et al. 2008: 128).

In this chapter, we respond to this call for a new research agenda by examining the ways in which power can facilitate or act as a barrier to learning in family businesses. Much of the admittedly limited discussion of power in family business research is based on the F-PEC scale of family influence (SFI) (Astrachan et al. 2002; Klein et al. 2005). This provides a multi-dimensional continuous scale to operationalise family influence. One of the three sub-scales is power, the influence the family has on the governance and management of the firm. While this framework has been used in a number of recent studies (Nienelä 2004; Holt et al. 2010), the operationalisation of the power construct is in essence restricted to the demographic type elements that characterise traditional approaches to defining a family business, specifically the percentage of firm ownership in family hands and the percentage of the management team and firm leadership drawn from the family. In keeping with Lumpkin et al. (2008) argument for a more extensive research agenda in family business studies, we wish, in this chapter, to move beyond these demographic measures to a dynamic process view of power which recognises that the power structure of a family business is shaped both by the social interaction among family members and between family and non-family members of the organisation and by the particular leadership role played by key individuals in the organisation.

The argument in the remainder of the chapter is structured as follows. First, we summarise the wider organisational literature on the relationship between power and learning, little of which has been drawn on to date in family business research. This highlights the importance of an understanding of power and power relations within an organisation for the learning process and the nature of learning outcomes. It also identifies the general absence of critical discussions of these relationships. Specifically, we take Lawrence et al. (2005) framework as a systematic attempt to analyse the relationship between power and learning to inform the discussion of these in a family business context.

Second, we use this framework to provide an interpretation of evidence from a longitudinal, action learning-based family business case study. This case study company is a second-generation family business in which three family members are still involved, the founder as Chairman, the son as CEO and the daughter as a middle manager, which manufactures a range of plastic injection moulded products for b2b and b2c markets. The company is expanding internationally, but faces some significant growth constraints and has a reputation for technical leadership and innovation within its sector.

Third, in the context of an investigation of the company's learning climate, we present three extended learning episodes, which demonstrate the four types of

power, to illustrate the more general relationship between power and learning in a family business: the process of strategy development; the development of alliances and joint ventures; and the implementation of operational process improvements.

Fourth, we conclude from our analysis that it is clear that the dynamics of learning, and more significantly non-learning, cannot be discussed without consideration of the issue of power and how it is exercised within and outside the family. Specifically, the learning process can be compromised as a result of a disconnect between power as influence and as force. In the family business setting, without an understanding of the dynamics of power and the relationships among the various types of power, the entrepreneurial learning cycle will remain incomplete. Finally, on the basis of this, we identify a number of issues around which further research into the link between the exercise of power and the failure of family business organisations to learn can be undertaken.

9.2 Power and Organisational Learning

Despite the recognition that power, and the struggle for it, lies at the heart of the political process, and that organisations can be construed as the expressions of political processes (Lucas 1987; Clegg and Haugaard 2009), there has been very little substantive attention given to the issues of power and politics in discussions of organisational learning (LaPalombara 2001; Rothman and Friedman 2001; Ferdinand 2004). On the one hand, it has been argued that there is a "new regard for the issues of power, politics and trust" (Easterby-Smith et al. 2000: 793), fundamental aspects of organisation learning which have previously been substantially overlooked (Easterby-Smith et al. 1998). As a result, "the time is ripe to start addressing learning and knowing in the light of the inherent conflicts between shareholders' goals, economic pressure, institutionalised professional interests and political agendas" (Easterby-Smith et al. 2000: 793). On the other hand, despite this fundamental recognition that organisational learning is an inherently political process (e.g. Burgoyne and Jackson 1997; Blackler and McDonald 2000; Coopey and Burgoyne 2000; Fox 2000), there "has been relatively little theory development systematically connecting organisational politics and organisational learning" (Lawrence et al. 2005: 180). Furthermore, although leading organisational theorists (Arygris and Schön 1978, 1996; Senge 1990) have addressed issues of power and politics, they have adopted the same "finicky, keep-it-in-the-closet attitude towards power" (LaPalombara 2001: 563) as has been seen elsewhere in organisation studies. Specifically, although not a recent insight, there is very little recognition that it is power relations, power games and power struggles within the firm that have significant implications for the nature, direction and effectiveness of the organisational learning process (Coopey 1995).

This is particularly the case for work being undertaken at the interface between the learning process and the practical application of learning in organisational contexts. As Easterby-Smith and Lyles (2003: 2) emphasise, this research has focused and continues to focus on the learning organisation or company, defined as "an entity,

an ideal type of organisation, which has the capacity to learn effectively and hence to prosper". Much of the research on the learning organisation focuses on understanding and improving the learning capacity of organisations with a more instrumentally performative orientation than is characteristic of most of the wider learning organisation literature. Although the terms "learning organisation" and "learning company" appeared in the literature only in the late 1980s (Hayes and Abernathy 1988; Pedler et al. 1988), the concept has roots in earlier work on learning and learning processes including self-renewal (Gardner 1963), organisational renewal (Lippitt 1969), deutero-learning and the concept of learning to learn (Bateson 1973) and organisational learning itself (Arygris and Schön 1978).

Part metaphor and part prescription "the most thoroughly worked out model of a learning organisation" (Coopey 1996: 348) is Pedler et al. (1991, 1997) concept of the learning company, which brings together three established themes in the organisation learning literature: how to structure organisations to achieve performance; how to encourage individuals to learn and develop in group and organisational contexts; and how to ensure organisations have the capacity to adapt to external environmental changes. However, the concept of power is not explicitly addressed in this framework. In a detailed commentary on the learning company model, Coopey (1995, 1996) suggests that the development of a learning company, which is based on an assumed connection between learning processes and the creation of competitive advantage (Moingeon and Edmondson 1996), implies a set of causal relationships mediated by a control process. In the implementation of a learning strategy within an organisation, there is a set of what Coopey (1996) refers to as intervening variables which connect the organisational learning characteristics of a company and the creation of competitive advantage in terms of change management, quality improvement, productivity increases and customer need orientation. These variables – personal development, strategies for learning, democratic processes, collective knowledge and intellectual property – are mediated by a control process. However, the nature of that process – who operates it, how they operate it, and with what consequences (both positive and negative) – is not explained. Given the nature of the family business and, in particular, the reliance on a single decision-maker (Feltham et al. 2005; Miller and Le Breton-Miller 2006), as well as the recent interest in the link between family and business performance (Sciascia and Mazzola 2008; Rutherford et al. 2008), the exploration of the nature of these intervening variables becomes more pertinent. We will return to these issues in the context of evidence drawn from our case study company.

Building on Giddens' (1979) concept of power, and in particular on the central issues of control and political activity, Coopey (1996) develops the idea of "control learning" to deal with what he sees as confusion on these issues in the learning organisation literature. Specifically, the learning company framework focuses only on control in the sense of conformity of the learning process in practice with the learning process as articulated in the prescriptive model of the learning company. This is problematic in two respects. First, it does not seem to acknowledge the tension between control and learning. As Argyris and Schön (1983: 4) state, "to focus on learning without taking into account the legitimate need for control is to

embark on a romantic and usually fruitless exercise". In other words, it is important to include discussion of power and power relations as an integral part of consideration of the learning process, which is of particular relevance given the governance structures of a family business (Miller and Le Breton-Miller 2006; Bertrand and Schoar 2006). Second, in taking an egalitarian stance on the development of the learning company, there is no explicit treatment of the issue of who in an organisation exercises that control. Nor is there an explicit recognition of the extent to which learning and control are political processes (Pedler et al. 1991, 1997). In the family business context, this issue of the balance between (controlling) power and (egalitarian) learning becomes more important given the recent emergence of a stewardship theory of such businesses which identifies reciprocal altruism as a positive family-specific resource (Corbetta and Salvato 2004; Eddleston et al. 2008; Kellermanns and Eddleston 2004).

Following Pedler et al. (1991, 1997) strategy can be seen as a learning process. Equally, strategic decisions and strategic intent necessarily involve political processes, and accordingly, an understanding of organisational power will be of value in understanding the evolution of, and changes in, strategy. A key theme in recent family business research, consistent with Lumpkin et al. (2008) argument, is the advocacy of a strategic management theory of the family firm (Chrisman et al. 2005; Eddleston et al. 2008). However, in neither the family business literature nor in organisational research more generally has there been much formal analysis of power and strategy (Mitsuhashi and Greve 2004). The limited prior research which has been undertaken has examined the link between power and organisational performance rather than between power and strategic change (Eishenhardt 1989; Haleblian and Finkelstein 1993). Within this, research on power and strategic change has focused on either the horizontal (power distribution across sub-units in organisations) or the vertical (personal power differences within the organisation), to the neglect of simultaneous consideration of their joint influence on strategy (Mitsuhashi and Greve 2004). As Hardy (1996) has argued, consideration of power provides a key perspective on the discussion and the practical implementation of strategy. Indeed, she contends that the reluctance by both academics and practitioners to recognise the influence of power and discuss its implications has impeded effective strategic change. For the practitioner, pursuing an agenda of change and learning to support the strategic development of their business, "power can, then, provide the energy for strategic change. Without it, we face strategic paralysis because we lack a mechanism with which to make change happen" (Hardy 1996: S3). For the academic, there is a contribution to be made both to understanding the relationship between power and strategic change and to the practical implementation of change, by exploring power and illuminating its role in the strategy-making process. In the context of our argument, this leads us to concentrate on three sets of issues: first, the interrelationship between power and learning; second, the outworking of this interrelationship in the context of the strategic development of the family business; and third, the role of the family decision-maker in brokering this interrelationship. However, before addressing this in more detail, we summarise the development of one synthetic framework which brings together the constructs of power

and learning, which we believe is an effective starting point for understanding these issues in a family business context.

As Hardy and Clegg (1996: 629) have pointed out, “the hidden ways in which senior managers use power behind the scenes to further their position by shaping legitimacy, values, technology and information are conveniently excluded from analysis. This narrow definition obscures the true workings of power and de-politicizes organizational life”. There are two reasons for this. First, power and conflict are multifaceted phenomena and are complex in their relationships (Peiró and Meliá 2003; Clegg and Haugaard 2009) and the study of their role in learning, as in other organisational processes, is neither simple nor straightforward. Second, and of particular importance in the field of learning, there is a reluctance to probe behind “the veil of corporate myth and rhetoric” (LaPalombara 2001: 564), and in consequence, a persistent belief in the mythologies about employee empowerment, stakeholder rights, decision-making rationality and the belief that the seeking and exercise of power within organisations is pathological. As a result, there is a significant downplaying of the fact that “the structure of power, explicit or implied rules about its use, and the norms that attach to overt and covert power-seeking will deeply affect the capacity of the organization to learn” (LaPalombara 2001: 564).

Peiró and Meliá (2003) indicate that power is not the unique source of the social forces that change organisations. However, from both a theoretical and practical perspective, it is important to study organisations from the perspective of power and influence. They draw on two approaches to the study of power in organisational contexts (Hardy and Clegg 1996): power as domination, challenges to which are seen as acts of resistance, based primarily on the analyses of Marx and Weber; and power as formal legitimate authority, the mainstream management perspective, which sees power as directed at the justified suppression of conflict or resistance. Power, in this context, is understood in the sense of power “to” achieve outcomes (Baum 1989) rather than the negative connotation of power “over” someone else (Pfeffer 1992; Hardy 1996). Within this it is possible to draw a further distinction between episodic power, defined as “discrete, strategic political acts initiated by self-interested actors”, and systemic power, which “work through the routine, ongoing practices of organization” (Lawrence et al. 2005: 182). This represents a distinction between power which resides with actors able to influence organisational decision-making and power which is diffused through the social systems that make up organisations. This mirrors the distinction in the change management literature (Weick and Quinn 1999) between change that is “episodic, discontinuous, and intermittent, and change that is continuous, evolving, and incremental” (Munduate and Bennebroek Gravenhorst 2003: 1).

Our starting point in this chapter is that “organizational learning from experience is not only a useful perspective from which to describe organizational change; it is also an important instrument of organizational intelligence … learning can improve the performance, and thus the intelligence, of organizations” (Levitt and March 1988: 333). However, to understand these dynamics in an organisation, it is necessary to appreciate both the basis for social power and the processes for the exercise of social power as a political means by which to influence organisations and their members.

Table 9.1 Power categories (adapted from Lawrence et al. 2005)

		Mode	
		Episodic	Systemic
How it works	Affects costs/benefits of behaviours	Influence Moral suasion Negotiation Ingratiation	Discipline Socialisation Training Team-based work
	Restricts available behaviours	Force Agenda setting Limiting decision alternatives Removing opponents	Domination Material technologies Information systems Physical layout

In so doing, it is important to recognise that power can be viewed as both a personal ability and a social condition (Knights and McCabe 1999). This interpretation is consistent with other discussions which have identified formal and informal dimensions of power in organisations. "Formal power is a role characteristic, socially and impersonally determined, rather than a personal one. On the other hand, informal power is a personal characteristic, connected to personal competencies, background, and experiences" (Peiró and Meliá 2003: 17). Accordingly, formal (personal) power has its basis in hierarchical position, which establishes explicit rules about the exercise of power, while informal (positional) power is based on personal sources of power which are not necessarily associated with hierarchy and formal structure, but depend on implicit rules and practices (Boonstra and Bennebroek Gravenhorst 1998; Munduate and Dorado 1998). This emphasis on the importance of recognising that there are both explicit and implicit rules in organisations about the use of power, and that power-seeking can be both overt and covert, suggests that the distinction between formal and informal power may have important implications for understanding the nature and process of learning within organisations.

Recently, this has been recognised by Lawrence et al. (2005) who, in developing a comprehensive theory of power and organisational learning, have argued that power and politics provide the "social energy that transforms the insights of individuals and groups into the institutions of an organisation" (p. 180), and that different forms of power are connected with different specific learning processes. As a starting point, they adopt Crossan et al. (1999) organisational learning framework as a typically social-psychological, rather than political, perspective on learning. Their perspective on power and politics goes beyond the typical narrow definition used in management research (Fiol et al. 2001) to recognise that there are two distinct modes in which power operates – the systemic and the episodic (Hardy and Clegg 1996; Clegg 1989; Lawrence et al. 2001).

This distinction parallels the informal/formal power of Peiró and Meliá (2003). However, Lawrence et al. (2001, 2005) go beyond this to categorise forms of power in terms of mode (episodic/systemic) and how it works (by affecting the costs and benefits of behaviours/by restricting the available behaviours). On this basis, they identify four forms of power (Table 9.1): influence, for example, the use of persuasion, negotiation and ingratiation; force, for example, agenda setting, limiting alternatives

or removing opponents; discipline, for example, through socialisation, training and teamwork; and domination, for example, through the use of material technologies, information systems and physical layout.

Based on this discussion, it is clear that there are different forms and expressions of power, and the exercise of power. One consequence of this is that if some forms of power are either overdeveloped or underdeveloped in an organisation, the process of organisational learning – the organisational learning cycle (Dixon 1999) – will be incomplete or attenuated. In other words, "organizational learning walks on two feet – episodic and systemic power – and a lack of balance in power will result in an endless merry-go-round of activity without any real progress" (Lawrence et al. 2005: 189). In the remainder of this chapter, we use this framework to illustrate the dynamic interrelation between power and learning in a family business context.

9.3 Power, Learning and the Family Business

Rather than develop a purely theoretical argument about the dynamics of power and learning in the family business, which would be hindered in any case by the paucity of field specific literature, we propose to illustrate the arguments outlined above by reference to material drawn from an in-depth longitudinal case study, focused on learning and strategic business development. The research site used in this study is a family-owned medium-sized, manufacturing organisation (Plasco) which, at the start of this research, employed around 260 people on 2 sites. The company comprises two divisions with a common Board and senior management team. Conco designs and manufactures a branded product range targeted at the haircare and beauty sector. Indco designs and manufactures injection moulded plastic components for customers in a range of industrial markets. Each division of Plasco, therefore, operates in very different markets and the company has been structured to allow each division to function as an independent strategic business unit. Furthermore, the two divisions are geographically separate, based on sites some 3 miles apart. However, at the start of this research, the two divisions had a number of staff in common, in the areas of finance, design and quality, and reported to the same senior management team. In this sense, the divisions are only partially independent. Soon after the initiation of this research project, when the CEO of Plasco decided to make strategy formulation a more inclusive process, an aggressive growth strategy was embarked upon, which resulted in a realignment of the organisation's vision to include the exploitation of overseas opportunities. It is important to note that the context for the remainder of our discussion is a family business with a high commitment to both reciprocal altruism and innovative capacity (Corbetta and Salvato 2004; Gudmunson et al. 2003; Eddleston et al. 2008) and is, therefore, the antithesis of the stereotypical family firm which is averse to innovation (Morck and Yeung 2004), fails to invest in new ventures, avoids risk, resists change and does not plan for the future (Cabrera-Suarez et al. 2001; Morris 1998; Levinson 1987).

To provide the basis for initiating a conversation about learning and strategy in the family business, using Plasco as a case illustration, we used the learning company

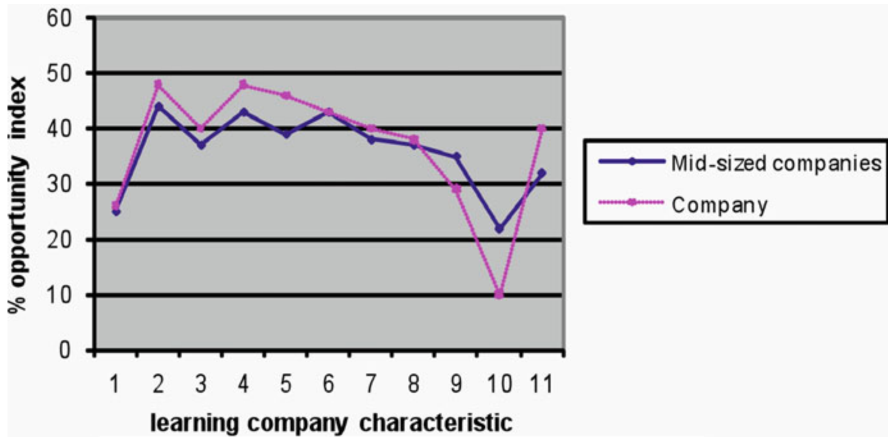

Fig. 9.1 Group figures: comparison with mid-size companies

framework and diagnostic instrument (Pedler et al. 1991, 1997) (see Appendix) to profile the learning culture in Plasco against that of a peer reference sample of independent, mostly family-owned, mid-size companies in the same regional economy (Leitch and Harrison 1995: Leitch et al. 1996), using the opportunity index[1] for each of the 11 learning company characteristics (Fig. 9.1). This shows that, in most respects, Plasco presents a learning profile which was very similar to that in the comparator group.

In order to provide an organisational context for discussion of the role and exercise of power, we will use the evolution of this profile to structure our discussion of power and organisational learning. We concentrate on those issues – internal structures, reward and recognition and policy and strategy – which formed the basis for most of the substantive discussions, which took place in the company throughout this process. Overall, there have been some changes in the opportunity index over the 10 years (Fig. 9.2).

Specifically, some areas have seen an improvement, while in others there appears to have been a worsening in the position of the company. Areas of improvement relate to "internal" aspects of the operation of the business: informating, formative accounting and control and internal exchange, which reflect a considerable investment of time and effort in the implementation of new systems and procedures.

However, and of more interest in throwing light on the role of power and politics in organisational learning, there are four areas in which the managers have identified a deterioration in the company's performance. The two major areas in which the

[1] The opportunity index is a standardised index ranging in value from 0 to 100% which indicates the extent to which respondents' beliefs about the current state of the company fall short of how they would like the company to be. The index is based on responses to 55 elements (5 per characteristic) measured on a 7-point Likert scale (Pedler et al. 1991). Pedler et al. usage designates this as a dissatisfaction index. However, the alternative term "opportunity index" (Harrison and Leitch 2000) resonates more positively with managerial participants in the process.

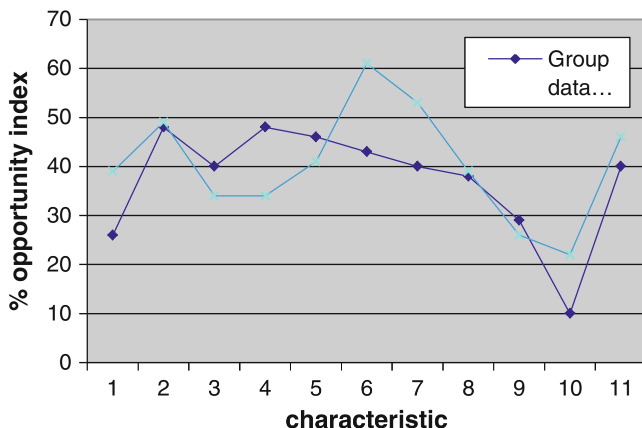

Fig. 9.2 Dissatisfaction Index – Plasco

company's position has become more problematic, in the eyes of its management, are reward flexibility and enabling structures. In both cases this deterioration occurred at the start of the research period and has continued since, and these are the areas where there is the most significant gap between the current state of the company and where its managers want it to be. As these areas touch on issues such as reward recognition (other than formal pay and benefits levels), appraisal and career development opportunities, problems here will have an impact on motivation, attitudes, performance and productivity. Indeed, others have pointed out that the reward system is the most powerful instrument in developing a learning organisation: "if you want changes, but leave the reward structure untouched, you will not get any change at all … Reward and measurement are among the most powerful and visible management tools that can support changes" (Hein-Soerensen 1997: 69, quoted in Thomsen and Hoest 2001: 487). For a family business, where there is a potential tension between paternalism and altruism in internal relations, this is a particularly important issue.

The other dimensions where the performance of the company has deteriorated in absolute and relative terms concern the formation and implementation of strategy and policy in the company. At the start of the process, a learning approach to strategy was one of the areas of lowest dissatisfaction in the company. However, frustration with the company's approach to strategy development had risen sharply by the end of the period despite the considerable effort made to engage a wide group of managers in the strategy development process. In terms of participative policy-making, there is a very distinctive pattern of change. At the outset, this was seen by managers as the most problematic aspect of the company. In other words, it was felt then that there was considerable scope to improve the extent to which managers were involved in (taking part in, discussion of and contribution to) the policy and strategy-making process within the company. This is consistent with the rationale for embarking on the action learning strategy and development process given by

both family and non-family members of the top management team at the outset. There was an initial sharp improvement in the position of the company in this respect. This reflects the significant investment in executive development for senior staff, initially involving the CEO and the non-family but shareholding CFO, in the company and the development of a formal strategy formulation process involving a wide range of managers and others in the company. However, this improvement had not been maintained, and by the end of the process, managers were more dissatisfied with this aspect of the company than they were at the start.

9.4 Power and Learning in the Family Business

This analysis provides the context for our discussion of the relationship between power and organisational learning, in which we draw out examples which relate to these key aspects of the learning profile of the company. The framework for analysing the relationship between power and organisational learning developed above (Table 9.1) provides the structure for examining the dynamics of power relationships which underlie the development of the case study company over a 10 year period. It is not our intention to report on every identifiable example of the exercise of power in this company. Instead, we review a number of situations which illustrate different aspects of the exercise (and the failure to exercise) of power and draw out the relationship between this and the realisation of learning outcomes in the company. Many of these issues are no doubt generic, but the particular dynamics of the family/non-family tensions in the company, and the particular nature of the leadership role of the family CEO, significantly shape the nature and exercise of power and suggest a range of directions for the further systematic exploration of these issues in a family business context.

9.4.1 Discipline

The exercise of discipline is focused on helping the members of an organisation acquire experience, and in so doing, see the possibilities in the situations that they face. As such, "discipline as a form of power involves an ongoing, systemic engagement with the target of power and affects the actions of organizational members by shaping their understanding of the costs and benefits of different behaviours and courses of action" (Lawrence et al. 2005: 187). Our engagement in the strategy development process in the company was designed by the CEO specifically to provide the basis for socialisation and the establishment of a common identity, teamwork and a framework for formal and informal management training and development (Knights and Wilmott 1989). Through this exercise of discipline power, he intended to establish a set of routines and procedures within the company which would support a more open systemic participation in the process of setting and shaping

strategy. However, as Lawrence et al. (2005: 188) point out, the exercise of discipline power "relies on the agency of those actors: organizational members must actively choose some course of action in order for discipline … to be effective".

What emerged very clearly was that this attempt to exercise discipline-based power in the company, focused on strategy and learning, was at best only partially successful. Organisational members who initially were enthusiastic about being given the opportunity to participate in the strategy process rapidly became disenchanted. This appears to reflect two sets of factors. First, in practice, the senior management, notably the CEO, of the company did not provide the ongoing stream of relevant experience which would shape the formation of the identities of the organisation members. In other words, the effective failure to establish a genuinely systemic approach to the strategy process was reflected in the inability to support the development of managers to the point where they "come to recognise themselves as discrete and autonomous individuals whose sense of a clear identity is sustained through participation in social practices which are a condition and consequence of the exercise of power" (Knights and Wilmott 1989: 538). Second, and reinforcing this, there was a clear sense from the managers that the absence of implementation of the ideas generated in the workshops and action learning sets undermined the legitimacy of the process itself. This was reflected in a number of attempts to enlist the support of the authors as advocates of their concerns to the top management group and in their progressive subsequent disengagement from the process. In essence, the failure of the senior management team to provide ongoing opportunities for involvement and the lack of commitment to implementation undermined the intention to have organisational members actively choose to participate in the strategy process.

Two specific dimensions of the company are relevant in understanding this outcome. First, there is a succession-related tension within the family: the Chairman and founder of the company, father of the CEO and principal shareholder, who was 68 at the start of this process, remained significantly involved in the business. This involvement was ostensibly passive rather than active, but he was a physical presence in the business on a daily basis and was not only seen but also respected, as a revered and honoured leader in the industry. While he claimed not to be involved in day-to-day decision-making, it was widely perceived that nothing happened in the company without his saying so, a perception reinforced by the micro-geography of the executive office suite, in which the CEO's office was essentially a small annex to the Chairman's office. This is a good illustration of Berkel's (2007) argument that if the optimum point to effect inter-generational succession in a family business is missed, the potential for conflict is intensified (Fig. 9.3). In this case, succession had not in practice been effected, and as a result, the capacity of the CEO to exercise discipline-based power was greatly constrained. Second, and reinforcing this family dynamic, there were differences of opinion within the management team. Many of these were the differences between sites, divisions and roles that are common to all businesses, but it was also clear that there was a cadre of senior managers, particularly in roles such as production, operations and quality management, who were on average around 10–12 years older than the CEO and who identified with the technical

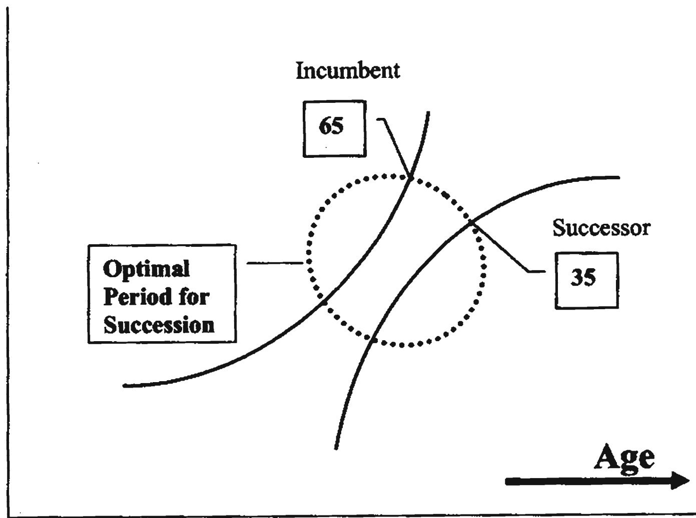

Fig. 9.3 Succession and conflict in the family business (from Berkel 2007)

background and reputation of the Chairman. Given that the CEO was most strongly associated with the consumer products division (Conco), and these executives were most strongly identified with the process technologies on the industrial products side of the business (Indco), their identification with the Chairman reinforced existing inter-site and inter-division tensions. Thus, this destabilised rather than supported the exercise of discipline-based power. As can be seen below, this tension underlies a number of other instances of the exercise of power in this company, with implications for how learning occurs in the business.

9.4.2 Domination

As Crossan et al. (1999: 525) have suggested, "dialogue and joint action are crucial to the development of shared understanding … [and] … if the co-ordinated action taking is recurring and significant, it will be institutionalised … *Institutionalizing* is the process of ensuring that routinized action occurs … [and] … of embedding learning that has occurred by individuals and groups into institutions of the organization including systems, structures, procedures and strategy". Central to this process is the definition of tasks, the specification of actions and the installation of organisational mechanisms to ensure that certain actions occur. For Lawrence et al. (2005: 186), the most effective political strategy for institutionalisation is domination and this will be embodied in a variety of systems including information systems, workspace layouts and manufacturing flow technologies. What is important about domination and institutionalisation is that it is systemic and based on the

development of organisational systems, which constrain the range of available behaviour and actions in a manner which is not subject to individual discretion (Bain 1998).

The clearest illustration of the development of domination power arose early in the course of this research. Right at the start of the period, the company's CFO was working through a broader consideration of the strategic implications of implementing a new IT strategy in the organisation as part of the action learning process. While the company had already installed an MRP II system (Spredbury 1994), it had not actually been employed, as the consultant responsible for its installation had neglected to discuss the issues of implementation and follow-through. Activation of this system as a strategic and operational imperative was accepted as a key commitment by senior managers, who allocated additional resources to the process. Despite this, the commitment to it was not universal. As Spredbury (1994: 150) has observed, "the human environment into which the MRP II system is introduced is critical for success". In this case, there was a failure to convince shopfloor employees of its benefits, leading to problems of negligence with regard to data input, high levels of error correction and dealing with exceptions. In other words, there was resistance on the shopfloor for replacing the informal exchange of information about production issues within that particular community of practice (Seely-Brown and Duguid 1996; Eckert 1989) with a more formal system. The availability of technology to support the circulation of information is not in and of itself sufficient to ensure that information does circulate freely (Feldman and March 1981), and the ineffective implementation of change in the MRP II project reflects the ineffective operation of domination-based power in the company.

For the CFO, the response to this situation was twofold. First, a programme of training and, as he put it, "re-education" should be designed for all operatives, in an attempt to develop discipline power to compensate for the failure to develop domination power effectively in the company. Second, he identified the need for a cultural change to highlight the importance of accuracy, completeness, timeliness and precision in the management of information. It took the company a further 5 years to finally effectively implement the MRP II system.

This experience suggests that while the institutionalisation of an innovation will be facilitated by the development of domination power (Lawrence et al. 2005), the implementation of those systems themselves in practice requires the operation of alternative modes of power (Table 9.1). In the case of the MRP II project, domination and the organisational benefits which ensued were achieved only through the exercise of discipline power, reinforced by the exercise of influence (negotiation and persuasion by the CFO) and force, including the removal or transfer of recalcitrant employees. This, however, was limited by the culture of the family management in the company, across both generations, that they should be a "good" employer and member of the community, which was reflected in the fact that they had very low levels of employee turnover even during business downturns. Within an agency view of the family business, altruistic behaviour – in this case a commitment to employees and their families – can be negatively associated with performance, reinforced here by an absence of clearly signalled and committed support from senior

family members (i.e. the Chairman and CEO) (Schulze et al. 2001; Chua et al. 2003; Chrisman et al. 2005; Miller and Le Breton-Miller 2006). For effective change to occur in such businesses, there is a clear need for committed leadership that goes beyond the titular leadership role implied by family ownership and position (Feltham et al. 2005). Indeed, the precise nature of the exercise of leadership in the family business context remains an important area for further study (Eddleston 2008; Pearson and Marler 2010).

9.4.3 Force

The use of force is the "construction of circumstances that restrict the options available to organizational members" (Lawrence et al. 2005: 186). This is closely tied to formal organisational hierarchies, and the ability of some organisational members to restrict the range of actions available to others. As such, it represents a form of positional power tied to positions that have or are granted authority to restrict or constrain the actions of others (Pfeffer 1981). In the course of our engagement with this company, we have come across a number of examples of the exercise of this type of power.

Eight years after aborting its unsuccessful engagement with formal strategic planning, the company revived its internal strategic planning process. This involved a much more tightly defined group of senior managers, deliberately chosen as the focus, in an attempt to ensure better implementation. This led to agreement on a new strategic plan for the company. One feature of this was the recognition that changes in the trading and competitive environment for Conco made diversification and the extension of the product range a priority. Independently, the CEO and Marketing Director accepted an approach from an American company to distribute their range of products in Europe. This relationship was based not on a formal contract of alliance, but on personal commitments from the principals in Plasco. Although this relationship enabled the company to meet some of the targets it set in its new strategy, the US association was presented as a fait accompli initiated and completed by the CEO and Marketing Director. As such, this commitment required effort and resources from other members of the management team to make it work and clearly represented the use of force, as it constrained the opportunities available to them to pursue additional strategic options, including those agreed in the strategy review process.

Critical to the decision to pursue this initiative was the emergence of latent conflict between family members. Fundamentally, the identification and pursuit of this opportunity by the CEO was a reflection of his desire to exert his authority over that of his father and in so doing demonstrate to himself, his father and the company at large that he did have the capacity to lead the business in new strategic directions. That he had to do so, of course, was a reflection of the emerging conflict between him and his father that followed from the failure to effectively manage the succession process (see Fig. 9.3) and reflected the increasing separation observed between the vision for the company held by the father and the son. As Mustakallio et al. (2002)

have argued, the absence of shared vision reduces cooperative behaviour, makes gaining commitment more difficult and creates conditions in which opportunistic behaviour is more rather than less likely. Furthermore, this decision had implications for the CEO's sister, who while a marketing manager in the firm was also a shareholder and board member – indeed, this is a combination of circumstances that raises interesting and separate issues of governance structures within the firm. Interestingly, the sister was not made aware of the proposed development in her role as shareholder and board member. More specifically, she was not appraised of this despite the fact that the new product range to be introduced in essence replaced that for which she had line responsibility. This decision, which reinforced her lowly position not only in the organisational hierarchy but also in the family business hierarchy, as well as constraining the nature of her job and degree of decision-making autonomy, represents a classic example of the exercise of power in the form of force. Notwithstanding this, the introduction of the new line was a success for the company and compensated for the loss of revenues elsewhere, allowing it to increase its sales, margins and profitability. This is at odds with the conclusion of other entrepreneurship research, which suggests in contrast to the emphasis on individualism, "collective action, rather than independence or autonomy …. appears central to family business success, at least with respect to firm profitability and growth in family assets" (Berent-Braun and Uhlaner 2010: 13).

9.4.4 Influence

Throughout the research process, we have seen a common thread underlying the exercise of power through discipline, domination and force. This thread can best be understood as a problem in the systematic and consistent exercise of leadership in the company, which sometimes reinforces but more commonly undermines and reduces the effectiveness of the exercise of other modes of power. As a result, there has never been the consistent application of influence as a form of power, particularly in the role played within the company by the CEO. Influence is associated with the interpretation and representation of new ideas in an organisation through the adoption of appropriate languages and cognitive maps (Lawrence et al. 2005). Given that new ideas will develop in unpredictable ways, it would be inappropriate, indeed ill-advised, to rely on force – the imposition of predetermined interpretations – to ensure their acceptance.

Building on earlier work by French and Raven (1959) and Cialdini (2000), Lawrence et al. (2005: 185) have identified three sets of resources which are critical for effective influence-based power: control of scarce resources; domain relevant expertise; and culturally appropriate social skills. In the context of Plasco, control over scarce resources primarily resides with the CEO, as a consequence of his formal positional power within the organisation. In this respect, therefore, he is, at least in principle, in a position to legitimately exercise influence through a range of tactics including negotiation, moral suasion and ingratiation.

An example of this arises from his decision, without initially consulting with other members of the senior management team, to enter into a contract with a manufacturer and distributor in India. According to the CEO, this venture is "either a suicide attempt or the best thing to do". Specifically, he explained his interest in this new venture as an outgrowth of his desire for a new and personal challenge – not the least of which is his desire to distinguish his identity in the business from that of his father – in addition to his belief that this is the best option for the company in the long term. However, this view was not shared widely within the company. Despite bringing his Indian partner – whom he described as "charismatic and incompetent" – over to Plasco to "sell" the idea to the entire management team, they remained unconvinced about the appropriateness of this development. Indeed, the CEO, in the words of his CFO, "is mad to embark on this partnership". This is not just because of the perceived incompetence of the partner, but the potentially unlimited downside risk for Plasco that this relationship represented. Nevertheless, the CEO has indicated that he will deepen his relationship with his Indian partner to acquire manufacturing capacity as well as extend the sales and marketing arrangements already in place. It is evident that he has identified and committed to a course of action for which he had not had the appropriate social skills to successfully influence the rest of his team. Further, it seems that the imperfect influencing skills of the CEO had reduced the efficacy of his decisions and made the exercise of other dimensions of power more difficult.

Consequently, the CEO's general inability to exercise influence-based power consistently and effectively makes his exercise of other forms of power more problematic. As a result, the business is failing to realise its full potential, which is reflected in the similarity of the situation of the company and the issues which it faces now and those which it faced at the start of the research a decade ago. In other words, in terms of the both strategy development process and the attitude to learning in the business, little progress towards a systematic approach to strategy development and a much attenuated learning process can be determined.

As our discussion of the four categories of power makes clear, this attenuation of the learning process is the consequence of problems in the exercise of power, in which family issues play a central role. Whereas other commentators, including Senge (1990) and Argyris (1999), view politics as the exercise of power as an impediment to learning, which can be overcome by individual and interpersonal skills (Tosey 2005), our analysis suggests that effective power relationships are essential if successful learning in organisations is to occur. These power relations, as Wartenburg (1990) has argued, are mediated by social alignments: in essence, the actions of one agent exercise power over other agents to the extent that these other agents' actions are appropriately aligned with the actions of the dominant agent (Rouse 2001: 194). These configurations are not static over time, but are subject to transformation, as subordinate agents attempt to resist or bypass them and dominant agents seek to strengthen and extend them. For Bain (1998), there is a co-evolution of organisational change and organisational learning which is constrained by the wider system domain: "all organizations have socially constructed defenses against the anxiety of carrying out the primary task of the organization and … these defenses

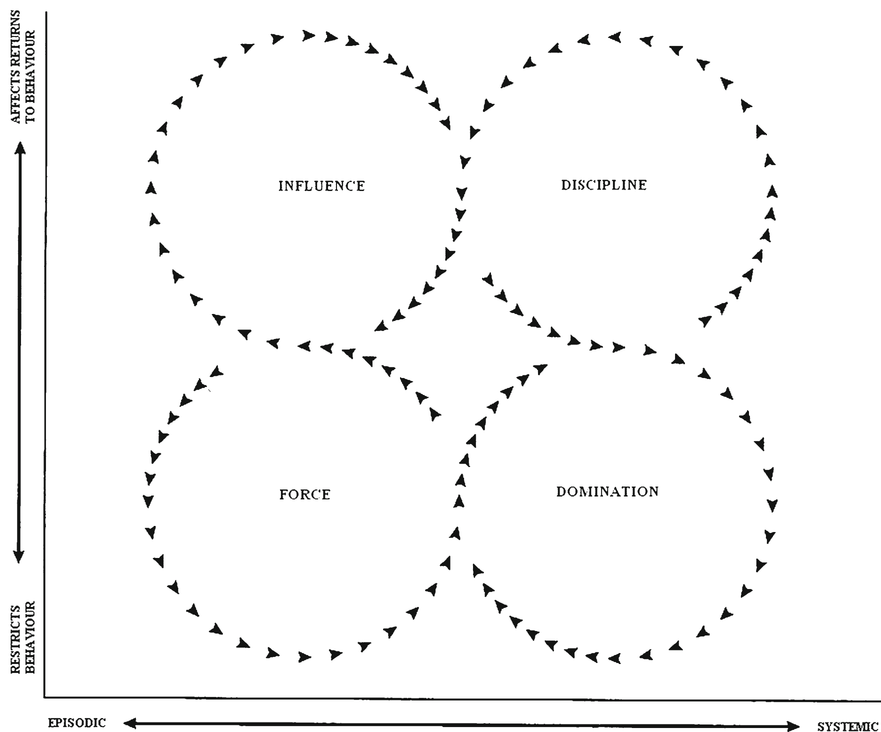

Fig. 9.4 A dynamic model of power and learning in the family business

prevent organizational learning" (p. 427). The exercise of influence, therefore, which we have identified as central to the overall exercise of power in organisational learning, is in turn a manifestation of power as mediated through social alignments of human agents. Furthermore, this overall exercise of power is a dynamic, not a static, process. Adapting Pedler et al. (1991, 1997) representation of the energy flow model of the learning company, we can represent the process dynamics of power in organisations as a set of interdependent relations (Fig. 9.4). This indicates that there is a horizontal linkage between force and domination and between influence and discipline. There is also a vertical linkage between force and influence and between discipline and domination.

Using this framework, we identify a number of questions which need to be addressed in further explorations of the interface between power and organisational learning in the context of family business research. First, in the analysis of power, where is the most appropriate point to start? Is it, as we have suggested above, with influence (where the leadership role of the key executive is most relevant), or is some other manifestation of power in some sense more "fundamental"? Second, are there direct linkages between discipline and force or between influence and domination, or are these mediated through other demonstrations of power, that is, influence and force, respectively, and in what way, if any, do the special dynamics of the

family business determine this? Third, what are the consequences for a family business of unbalanced development, reflected in the dominance of one form of power at the expense of the others? Fourth, what are the implications of the crossover points between different pairings of power categories, and between episodic and systemic power, and power which restricts or merely affects the returns to behaviour? From the discussion in this chapter, it is clear that these are the questions around which more detailed consideration of the nature of power and its role in facilitating and hindering organisational learning in the family business must occur.

9.5 Conclusion

Throughout this chapter, we have attempted to address a number of issues in the relationship between power and organisational learning. Our starting point was the recognition that power and politics influence the struggle between competing bodies of knowledge in organisations (Tsoukas and Mylonopoulos 2004), where learning organisations can be studied and interpreted "as contemporary work environments of power struggles" (Akella 2003: 216). As such, we have argued that a consideration of learning in organisations cannot be divorced from the analysis of power and political processes. Power and political activity are everyday factors of organisational life and are not necessarily only negative in their implications for learning (Ferdinand 2004).

We acknowledge that there is a tension between much of the emphasis of the organisational learning literature on what Coopey and Burgoyne (2000) have articulated as the organisational democracy ideal, which emphasises openness, participation and self-development and a more nuanced awareness of the role of power. Based on our elaboration of Lawrence et al. (2005) framework for analysing power and organisational learning, we conclude that the structure of power relations within an organisation will significantly shape the extent to which that organisation and its members will learn effectively. Furthermore, unlike those who have argued that power is negative and inimical to learning, we have demonstrated that learning and the organisational benefits that follow from effective learning critically depend on the existence and exercise of all dimensions of power. Without an effective power structure, the organisational learning cycle (Dixon 1999) will remain incomplete. As Peiró and Meliá (2003) have concluded, in a rather different context, expanding the total amount of power available to an organisation, by moving from positional to personal power, by sharing power with others and by enhancing the effectiveness and efficiency of each power dimension, can underpin and foster the development of new organisational relationships within which enriched learning can occur.

This enlarged perspective on learning and power poses two challenges for family business research. First, recognising the distinctions between formal and informal power and positional and personal power requires us to change the way we look at and research the process of learning in organisations. Specifically, "the aversion to discussing power has restricted our understanding of it and impeded effective

strategic change. Academics can contribute by exploring power and showing how it is part of the strategy-making process" (Hardy 1996: S14). This, as we have argued in the introduction to this chapter, is an even more pressing issue for family business research which has barely begun to engage with the debate. Second, a deeper understanding of the influence of power on learning provides the basis for family business leaders to understand more effectively the scope for the competent use of the dimensions of power to enhance their capacity to influence and impact the process strategic change in organisations. In advancing both research and practice in this area, we need to move from a perspective which considers "learning and power" as two possibly related but separable domains of discourse to one which recognises that it is only possible to consider learning through power.

Appendix

The Learning Company Characteristics

Characteristic	Definition
Learning Approach to Strategy	Company policy and strategy formation, together with implementation, evaluation and improvement, are consciously structured as a learning process
Participative Policy-Making	The sharing of involvement in the policy- and strategy-forming processes; that is, all members of the company have a chance to take part, to discuss and contribute to major policy decisions
Informating	The state of affairs in which information technology is used to inform and empower people rather than, as so often is the case at present, disempower them
Formative Accounting and Control	Part of informating this aspect ensures that systems of accounting, budgeting and reporting are structured to assist learning
Internal Exchange	All internal units and departments see themselves as customers and suppliers, contracting with one another in a partly regulated market economy
Reward Flexibility	The exploration of new, alternative ways of rewarding people. Money need not be the sole reward, and for many people, a whole range of things may be considered "rewarding"
Enabling Structures	The creation of opportunities for individual and business development. Roles are loosely structured, in line with the established and contracted needs of internal customers and suppliers, and in such a way as to allow for personal growth and experiment
Boundary Workers as Environmental Scanners	The collection of information from outside the company scanning is carried out by all members who have contact with external customers, clients, suppliers, neighbours and so on

Characteristic	Definition
Inter-Company Learning	Engagement in a number of mutually advantageous learning activities with customers and suppliers, including joint training, sharing in investment, in research and development and job exchanges
Learning Climate	Managers see their primary task as facilitating members' experimentation and learning from experience. Senior managers give a lead in questioning their own ideas, attitudes and actions
Self-Development Opportunities for All	Resources and facilities for self-development are made available to all members of the company – employees at all levels and, ideally, external stakeholders too

Source: Adapted from Pedler et al. (1991: 18–23)

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Chapter 10
How to Create Trust in Family Firms and Rebuild It When It's Lost: Implications for Practice and Research

W. Gibb Dyer

10.1 Introduction: A Case Study of Trust in a Family Firm

As a consultant to family businesses for almost 3 decades, I have found trust to be a fundamental issue in these types of organizations. One example of a family business that faced a breakdown of trust is a company that I will call the Jackson Corporation (all names disguised). Jim Jackson, the company founder, worked in the business with his wife, Stella, his two sons, Fred and Tim, and his daughter-in-law, Sarah. One day I received a phone call at my office from Jim asking me to meet with him for lunch to discuss his family business and some of the problems that he faced. Since I rarely turn down a free lunch, I agreed to meet with Jim. During lunch Jim discussed his family's history: he had gone into business early in his career with his brother, but eventually they couldn't work together, so Jim left the business to start a new firm that competed with his brother. This, of course, caused hard feelings between Jim and his brother, and they never spoke to one another again. After starting the new business, Jim's wife, his two sons, and eventually his daughter-in-law went to work for him. However, over time, Jim believed that his son Fred was behaving unethically, so he fired him. This upset Stella so much that she kicked Jim out of the house, and Jim confessed that he was now sleeping on the couch at his office. Jim asked me: "What should I do now? How can I repair the trust that's been lost?"

After gathering more information, I agreed to meet with Jim and Fred to see if we could come up with an employment agreement that would work for both of them. After clarifying various expectations on the part of Jim and Fred, Jim agreed to hire Fred back. Jim agreed to let Fred have somewhat more freedom in his job as manufacturing manager and Fred agreed to inform Jim more regularly regarding his actions and performance. For a time this new arrangement seemed to work for both of them.

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However, a few months later as Jim reviewed the company's telephone bill, he discovered that someone in the company was calling a "sex-talk" hotline. This infuriated Jim and he went to his sons and a few nonfamily managers demanding that the offender confess. When no one did, Jim called me to express his frustrations. I listened to Jim for almost an hour and then told him that I was leaving on vacation and that he should not do anything until I got back and after I returned we could meet to come up with a plan of action to deal with the problem.

On returning from vacation, I called Jim and to my horror he said the following: "I decided I couldn't wait until you got back, so I called my friend who is a polygraph expert and he said I needed to give all the employees – particularly members of my family – a lie detector test. So I agreed to have my family and other key employees tested. My daughter-in-law got so upset about being required to take the test she's filed a lawsuit against me for invasion of privacy." Unfortunately for Jim the daughter-in-law's lawsuit went to trial and Jim was found guilty and had to pay a significant fine. This further estranged Jim from the rest of the family, and eventually Fred, Tim, and Sarah left the business for other employment opportunities.

Over the course of 3 years, I continued to try to help Jim deal with a variety of problems, most of which had "trust" as the key issue. Unfortunately, my efforts had little effect. Jim continued to distrust his employees and members of his family and in return they would do various things to reinforce Jim's distrust of them. In the end, Jim divorced his wife Stella, sold the business, and moved away to another state. A few years later, I read his obituary. He apparently never reconciled with his family and died without any family near his side.

The case of the Jackson Corporation reveals what can happen when family members who work together fail to develop bonds of trust. The lack of trust undermines relationships in the family and is detrimental to the business. The topic of trust has been discussed and debated in the management literature since early in the twentieth century. Early writings by Douglas McGregor, Jack Gibb, and others have noted how organizations and their managers often lead through fear and distrust with the outcomes of such leadership being detrimental to both the organization and its employees (McGregor 1960; Gibb 1978). In this chapter, I will explore the topic of trust in the context of the family firm. The origins of trusting relationships along with the positive effects of trust as well as its "dark side" will be discussed. Moreover, the various "types" of trust will be explored and we will examine how trust is lost and repaired in family firms. We will also look at various societal trends that will likely have a significant impact on trust in family firms in the future, and finally discuss how the research agenda regarding trust in family firms might be advanced.

10.2 What Is Trust?

When we speak about trust we are referring to "a psychological state comprising the intention to accept vulnerability based on positive expectations of the intentions or behavior of another" (Kim et al. 2009, p. 401). In other words, we agree to be

vulnerable to a degree based on our belief that we will benefit in some way by our relationship to a person, a group, or an institution. Furthermore, there are primarily three "types" of trust that are generally part of trust dynamics in family firms (Kim et al. 2009; Sundaramurthy 2008) and these are as follows:

Interpersonal trust – Interpersonal trust is based on one's relationship with another person and is primarily based on one's interpersonal history with that person. To the extent that another has proven to be predictable and behave reliably in certain situations, they are deemed to be trustworthy. In Jim Jackson's case, the lack of interpersonal trust between himself, his wife, and his children was the fundamental problem.

Competence trust – Competence trust is based on the skills, abilities, and experience of the other party. If we believe the other party has the necessary expertise to help us with a particular issue or problem, we "trust" their judgment and advice. Academic degrees, certifications, reputation, etc. are often the way we "know" that someone can be trusted to perform a certain task competently.

Institutional trust – Institutional trust is based on whether we see the "system," the "rules," or the "processes" as being fair and trustworthy. Employees want to know that they will be paid on time each month, that their medical insurance will cover expenses, and if they have a problem at work that the organization's grievance procedures will help them rectify their concerns. Such faith in organizational systems and processes encourages individuals to participate fully and be committed to the organization.

10.3 Where Does Trust Come from?

The psychologist Erik Erikson postulated that all of us have a basic dilemma to resolve during our first year of life – do we trust the world around us or is the world basically unsafe and unworthy of trust (Erikson 1980)? Infants need to have a predicable world where food, warmth, and shelter are a given. Children, who grow up in environments plagued by constant change and uncertainty, come to view the world with suspicion. Thus, to the extent that a family – in particular the father and mother – who owns a business creates an environment in the home that is safe and predictable for the children, the more likely that such children will grow up to be trusting of those around them. Erikson, however, does note that the issue of trust, while primarily formed in early childhood, must also be negotiated throughout one's life. If, for example, a child has a supportive, trusting home-life that is then disrupted by a messy divorce between his parents during his teenage years, this teenager may come to doubt the security he once had and begin to see the world as more uncertain and less trustworthy. As noted in the case of Jim Jackson and the conflict he had with his brother, Jim may have learned, at some basic level, that family members are not to be trusted.

We also develop trust as we interact with others. In particular, trust regarding family members tends to be more situation-specific and nuanced as compared to

trust we develop with relative strangers in the workplace. For example, a sister may trust her brother to come to her rescue if she is in physical danger, but she knows not to trust him in a card game since he's been known to cheat. These "repeated plays" where we have the opportunity to test the trustworthiness of family members – whether at home or in business – allow family members to better predict how others in the family will behave in certain situations. And, of course, we tend to want verbal commitments from other parties when we are unsure of their trustworthiness, and in cases where we are very uncertain of the other party, we might rely on written or legal documents to ensure proper behavior and provide recourse to the courts if we are taken advantage of.

10.4 Why Is Trust Important?

Prior research by Schulze et al. (2001) and others has noted that trusting relationships are valuable in family firms. First, they can lead to lower transaction costs since by trusting members of our family we don't have to rely on legal documents or other costly and time-consuming mechanisms to ensure that they will follow through with their agreements. Trust also lowers agency costs since there is less need to monitor the behavior of others. When family members trust one another and share the same goals and values, little time and effort need to be spent in ensuring that family members are working hard toward appropriate goals.

Trust also can help family members, and nonfamily employees for that matter, feel more secure as they come to work. This tends to enhance their self-esteem and may lead to more creative and innovative behaviors since they will not feel the need to protect themselves from others. In low-trust organizations, employees often spend time "covering" their actions to avoid retribution; communications are often restricted and distorted when trust is lacking; conflict occurs between individuals and departments which often leads to poor individual and organizational performance. Hence, trust matters since it's often the "lubricant" that allows individuals to interact in a cooperative manner and leads to improved productivity.

Trust, however, can prove problematic in certain situations. Edward Banfield, in his classic work, *The Moral Basis of a Backward Society* (1958), described the problems communities faced in southern Italy when trust was isolated to members of one's own family but not extended to outsiders. Banfield notes that important community assets such as schools and roads were not supported by the communities since families were unwilling to cooperate with one another. Francis Fukuyama is his book titled *Trust* writes that "familistic societies frequently have weak voluntary associations because unrelated people have no basis for trusting one another" (p. 28, 29). The importance of social capital that goes beyond one's nuclear family cannot be overstated since it leads to healthy individuals, families, communities, and economies (Putnam 1999). Thus, there is a "dark side" to trust if it becomes too insular and undermines building trusting relationships outside the family.

10.5 How Is Trust Violated?

There appear to be two primary means by which trust is violated. These are as follows:

- Acts of commission – an individual, group, or organization does or says something that is inconsistent with one's expectations. Hence, trust has been violated.
- Acts of omission – someone (or a group or organization) fails to do something he or she (or "it") agreed to do.

Moreover, it appears that not all violations of trust are viewed equally. From my experience as a consultant to many family firms, the following list rank orders various violations of trust from the most to the least serious:

1. Infidelity
2. Violations of the law (e.g., stealing, forgery, etc.) – such violations often lead to the filing of lawsuits against other family members
3. Lying
4. Failure to meet obligations (financial or otherwise)
5. Failure to follow agreed-upon procedures
6. The lack of transparency – the lack of sharing or withholding of information regarding business and family matters from others in the family. Trow (1961) discovered that families that shared succession plans with family and key non-family members in a demonstration of trust had fewer problems in managing succession and the firm fared better financially after succession than those firms where succession plans were not shared

10.6 How Trust Is Repaired?

We will now discuss how trust, once lost, might be repaired at the interpersonal, competence, and institutional levels of trust.

10.6.1 Repairing Interpersonal Trust

Kim et al. (2009) along with several other scholars who have studied interpersonal trust have outlined the steps in the process to repair that trust. These steps are as follows:

1. Confession – Does the person admit his or her mistake and ask for forgiveness? This may occur in private or may be highly public as was the case of Tiger Woods confessing his infidelity on national television.

2. Remorse – Is the offender really sorry? This is an issue for those who may want to trust the offender again. Showing true remorse – whether through tears or other manifestations – is often essential to receive forgiveness and begin to repair the trust that has been lost.
3. Attribution – Was the violation a result of the situation or some personality flaw? If the person who was harmed by the violation sees the breakdown of trust as situational – something that was caused by an unusual set of circumstances – trust is more easily repaired than if one believes that the offender has a fundamental character flaw that makes him or her difficult to trust.
4. Is the problem fixable – Can the person change? If we believe that someone who has violated our trust can change, we are more willing to begin anew to build trust with that individual.
5. Restitution – Can the person "make up" for what was lost due to the violation of trust? Restitution is often required to repair the trust that was lost. If a person has hurt another's reputation, they must take action to restore that reputation; if someone has been hurt financially, they need to be compensated for their loss. To the extent that restitution is difficult, if not impossible (as in the cases of infidelity or murder), repairing trust becomes all that more difficult.
6. Not doing it again – Will the offender repeat the offence? To the extent that there are repeated violations of trust, it will be more difficult for trust to be restored. Moreover, even if the offender goes a long period of time without repeating the offence that violated the trust, the impact of merely one violation of trust can make trust even more difficult to restore.
7. Willingness on the part of the person offended to extend forgiveness. Even if the offender goes through the various steps to repair trust – confession, remorse, restitution, etc. – it will not be restored unless the offended party is willing to forgive the offender and be willing again to be vulnerable to a degree with the offender.

In the case of Jim Jackson and his family, I could never get Jim to recognize that he had injured his family and needed to make amends – he believed the problems were all their fault. And, unfortunately, I wasn't able to get his wife, sons, and daughter-in-law to extend forgiveness to Jim. They believed that Jim's actions didn't warrant forgiveness.

10.6.2 Repairing Competence Trust

Repairing competence trust in a family firm may involve one or more of the following activities that will help to ensure competence in the family firm:

- Create human resource systems that focus on recruiting and selecting employees based on competence
- Institute training to improve family and nonfamily employee's skills
- Develop competence-based performance appraisals

- Develop fair disciplinary procedures to deal with family (and nonfamily) employees who violate performance expectations
- Requiring credentials certifying competence. For example, some family firms, such as the Haas family at Levi Strauss, required family members to get an MBA degree before joining the family firm. Others require significant work experience outside the family firm before allowing the family member to enter the family business

10.6.3 Repairing Institutional Trust

To repair institutional trust generally requires creating systems and processes that allow for transparency in the family and the business. The following are just some of the activities that help to repair institutional trust:

- Clarify and share the details regarding the company's legal form and articles of incorporation or partnership agreements and ensure that the various parties understand the implications regarding the company's legal form and various agreements that have been made.
- Share financial information regarding firm performance and family assets with family members on a regular basis.
- Develop a succession plan that is shared with key parties.
- Ensure that the processes for making important decisions are transparent (e.g., entry of family members into the business, major investments, rewarding of family and nonfamily employees).
- Have outside review of the performance of the business as well as outside review of the performance of individual family members. This might be done by including nonfamily directors, nonfamily managers, and/or consultants in the review process.

10.7 The Role of Third Parties in Repairing Trust

To repair trust at the various levels often requires the assistance of a third party. In the case of violation of interpersonal trust within a family – particularly if it's a serious violation such as infidelity – a family therapist is often needed to help individuals and families restore the breakdown of trust (Hilburt-Davis and Dyer 2003). In my role as family business consultant, I've often been aided by a family therapist who helps the family deal with serious breaches of trust. Given that I don't have the training or credentials to do family therapy it would be unethical for me to attempt to engage in therapy with a client. However, given my background and training, it's entirely appropriate for me to work with a client to clarify various "simple" conflicts and violations of trust in a family firm (Hilburt-Davis and Dyer 2003) or to repair

competence or institutional trust. Repairing competence and institutional trust is generally done through:

- Setting guidelines and expectations
- Engaging in teambuilding activities which help to clarify how decisions are made and how the family might work as a team (Dyer et al. 2007)
- Clarifying the firm and family's mission and strategy – helping the family create a "shared dream" (Lansberg 1999)
- Developing HR systems and training programs for the family firm to ensure competence and effective evaluation (Astrachan and Kolenko 1994)
- Encouraging transparency in the sharing of information, decision-making, etc.

By encouraging the family to create human resource systems and processes to ensure competence on the part of family members and developing processes which allow the family members to develop common goals, share information, and create shared expectations, the family business consultant can strengthen trust within the family business. Furthermore, consultants should recognize that trust is often based on whether someone believes they are treated "fairly." This often differs among family members – some see fairness as all family members being "equal," others may see fairness based on "merit," while others may believe that fairness should be based on "need" (Van der Heyden et al. 2005). Thus, the role of the consultant is often to clarify what the family members believe is "fair" and help them come to a consensus on this issue, so that expectations will not be violated.

10.8 Problems of Trust for Family Firms in the Future

Francis Fukuyama (p. 63) in his seminal book titled *Trust* notes that "virtually all economic endeavors start out as family businesses." If this is indeed the case, we might ask the question: Are families of the future likely to have more, or fewer, issues related to trust as they attempt to found and perpetuate their businesses? There are several global trends that are likely to make developing trust more difficult in family firms of the future. These trends include: (1) declining birth rates, (2) increasing divorce rates, (3) increasing single parent families, and (4) increasing takeover of family firms by large, public corporations. Each of these trends and their impact on trust in the family firm will be briefly discussed.

One of the trends in the industrialized world is a decline in birthrates. For example, given current birthrates various studies project that Europe will have approximately 40–100 million fewer people by 2050 (www.xist.org/earth/pop_continent.aspx). Except for minority populations, the United States will experience a decline in birthrates, and there are similar declines in certain Asian countries such as Japan. Without progeny, founders of family firms will not have any family member to trust with future ownership and management of the business. Moreover, Hudson and den Boer (2005) have noted that due to selective abortions in Asia – mostly India and China – there are 90 million fewer women than men. Thus, the reality is that many

young men in Asia will not be able to find a mate who can help them perpetuate the businesses that they start. And smaller (and fewer) families mean that there will be fewer familial resources to draw on to start or grow a family enterprise. With this trend of declining birthrates, we might hypothesize that this trend will lead to: (1) fewer family firms, and (2) fewer family firms that continue beyond the first generation since the founder will have fewer family members to choose from and trust with future leadership of the firm.

Increasing divorce rates are also a common concern in today's world. The highest divorce rates are in Europe (e.g., Sweden, 54.9%), Australia (46%), the United States (45.8%), and Russia (43.3%), while divorce rates in the Middle East (e.g., Turkey, 6%) and Asia (e.g., India, 1.1%) are generally much lower (www.divorcemag.com/statistics/statsWorld.shtml). Divorce is generally the result of the breakdown of trust between spouses due to infidelity, conflicts regarding finances, poor communications regarding sexual relations, child-rearing, and so forth. Divorce naturally undermines trust between parents and children, since children who experience divorce often are placed in situations that undermine trust between them and their parents. While I know of no empirical studies of how divorce affects parent–child relationships in family firms, anecdotal evidence from my consulting practice suggests that divorce tends to cause additional friction in relationships in the family business and it also can create dynamics that are unhealthy for the business. For example, in one family business the founder's son would leave work early to play golf and consistently shirk his assigned duties, but the founder was not willing to discipline him due to the fact that he felt guilty for getting a divorce from his mother. Future research might look at the effects of divorce or other traumatic events in a family on trust in family firms and the performance of family firms. We might explore such questions as: Will blended families or other forms of family have the same levels of trust and a similar impact on family firm performance as compared with traditional nuclear families? We also might hypothesize that divorce will lead to more distrust in families, and such distrust will discourage family members working together. Hence, higher divorce rates in a society might lead to: (1) fewer family businesses, (2) fewer family businesses that continue to the second generation, and (3) poorer family firm performance (as the result of less trust).

One of the more dramatic changes in families in recent years has been the increase in single parent families. While divorce certainly leads to this, the number of children born to unwed parents, with the mother generally becoming the primary caretaker, has increased dramatically over the past few decades. Table 10.1 lists a few selected countries and the percentages of out-of-wedlock births in 1980 and 2007.

As noted in Table 10.1, in the United States about 40% of children are born out of wedlock. However, over 70% of African-American children are born to single mothers. Out-of-wedlock births are almost unheard of in certain Asian communities. Children from single-parent families grow up in a more threatening world – they tend to grow up in poverty, do poorer in school than their two-parent counterparts, and have more behavioral and emotional problems such as anxiety and depression (see www.fragilefamilies.princeton.edu for the findings of the "fragile families" study of the children of unwed mothers). Nobel-prize winning economist Gary

Table 10.1 Percentage of births that are out-of-wedlock, 1980 and 2007 – selected countries

Country	1980 (%)	2007 (%)
Japan	1	2
Italy	4	21
Ireland	5	33
Netherlands	4	40
United States	18	40
Norway	15	54
Sweden	40	55

Source: www.usatoday.com/news/health/2009-05-13-unmarriedbirths_N.htm

Becker of the University of Chicago notes that single parenthood is an impediment to developing the human capital that is needed for a vibrant society (Becker 1993). Thus, we might hypothesize that more single-parent families will lead to poorer human capital available to single parents to launch a family firm (i.e., children of single parents have more problems and are less able). Furthermore, if children of single parents have significant behavioral problems, it is less likely that a single-parent founder of a business will be willing to trust the leadership of the business to his or her child. If this is indeed the case Asian families (e.g., Korea, Japan, China) will have an advantage in human capital for their family firms and will more likely trust their children with firm ownership and management since they have significantly fewer out-of-wedlock births than families in Western nations.

A final topic that we will consider is the impact of acquisitions and mergers on family firms: What happens to the trust level in a family firm if it is acquired by a large, public corporation or merges with a company that has different norms and values? Previous research on this topic has noted that trust is undermined in family firms as the result of an acquisition or merger (Meek et al. 1988). Fukuyama (1995) describes this phenomenon in the family firms that he has studied:

> Americans have seen a familiar story play itself out over the past decades, as a small family business with strong internal bonds is bought out by a larger company. Unsmiling new managers with reputations for ruthlessness are brought in; long-time employees are fired or fear for their jobs, and the former atmosphere of trust gives way to one of suspicion (p. 312).

Thus, we might also hypothesize that the trust which may have been an integral part of the family firm culture may be undermined or lost if the firm merges or is acquired by another company.

10.9 How to Study Trust in Family Firms

One additional question for the future is: "How might we study the issue of trust in family firms?" From my perspective, there are two key issues related to this question: (1) how do we "measure" changes in trust levels in a family firm, and (2) how can we identify the antecedents (causes) of changes in trust in family firms?

Identifying measures of trust is not easy, although there are certainly plenty of methods that purport to measure it (e.g., Mayer et al. 1995). However, given the fact trust is a function of perception – what might an untrustworthy act to one, might be harmless to another – measures that are based in situ – those that take the context into account – are likely to be more reliable and valid. For example, in my study of the Brown Corporation (Meek et al. 1988), I hypothesized that trust between senior management and lower level employees had deteriorated once professional managers took over leadership from the Brown family. To test this hypothesis, I tracked turnover rates before and after the advent of professional management as well as gathered oral histories from those who worked at the company before and after professional managers joined the firm. I also discovered, almost by accident, that there was a singing group – the Brown Chorus – that represented the company at a variety of civic functions during the 1960s and 1970s. Membership in the chorus rose during the late 1960s and early 1970s, but began to decline shortly after the takeover of professional management and was defunct by 1978. The data indicated that following the takeover of professional managers in the mid-1970s, turnover increased, employees reported a greater distrust in senior management, and employees were no longer willing to sacrifice their time to sing on behalf of the company. These data suggest that levels of trust had indeed declined in the Brown Corporation. This example of the Brown Corporation suggests that those interested in studying trust in family firms may need to look to measures of trust that are unique to the situation they are studying and moreover, they will need to study changes in trust longitudinally to ascertain how and in what ways trust has increased or decreased over time.

The events that may cause trust to change in family firms are likely to be many and varied. Some of those events may include the following:

- The hiring of a new family member into the firm or a family member leaving the business
- The transition to a public company or hiring of professional management
- Leadership succession
- The preparation of a will or an estate plan
- Disciplining or evaluating the performance of a family member
- Interpersonal conflicts between family members both in and outside the business
- The death or disability of a family member

While there are likely other events as well that will affect trust in a family firm, those researching the topic of trust would be well advised to identify the events that affect the trust levels in the family firm, and then study what actions, if any, are taken by family members or nonfamily employees to repair trust at the interpersonal, competence, or institutional levels. Moreover, it would be important to identify which approaches to building trust work better than others over time. Such an approach to studying trust in family firms suggests that careful comparative case studies will likely lead to the kind of insights needed to help us better understand what causes trust to be undermined in family firms and how such trust can be restored.

10.10 Conclusion

In this chapter, we have explored the concept of trust as it applies to family firms. In general, it is argued that high levels of trust are positively related to organizational performance (e.g., lower agency and transaction costs) and thus should be cultivated by founders and managers of family firms. However, such trust can be lost at the interpersonal, competence, and institutional levels as a result of personal failings, nepotism, or failure to meet expectations. Repairing trust that is lost in the context of a family firm is not easy, but is possible, and may require the help of outside consultants or family therapists. Fortunately, research and practice have suggested several approaches to repairing trust in family firms. Finally, several global trends – declining birthrates, divorce, out-of-wedlock births, and acquisitions and mergers – will likely have an impact on the trust levels found in family-owned businesses. It is clear that more research along the lines suggested in this chapter is needed to ensure that healthy levels of trust will be found in the family firms of the future.

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Chapter 11
Entrepreneurial Leadership and the Family Business

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11.1 Introduction

This chapter focuses on a key interpersonal and organizational phenomenon in family businesses that has received only limited attention in previous literature: leadership. More specifically, our focus is on *understanding the nature of entrepreneurial leadership in family firms*. Family businesses face many unique challenges, and the leadership style of the key family members is central to overcoming many of these challenges. Particularly, family businesses benefit from having leaders with clear vision for the future of the business, leaders with an ability to challenge everyone in the organization to focus on recognizing new opportunities, and leaders who can themselves serve as role models in such opportunity recognition. These are essential elements in our conceptualization of entrepreneurial leadership.

This chapter develops the construct of entrepreneurial leadership based on previous work in entrepreneurship, leadership, as well as the emerging field of entrepreneurial leadership, and we apply this leadership style to family firm context. As illustrated in Fig. 11.1, we believe that the specific context of family firms requires an understand-

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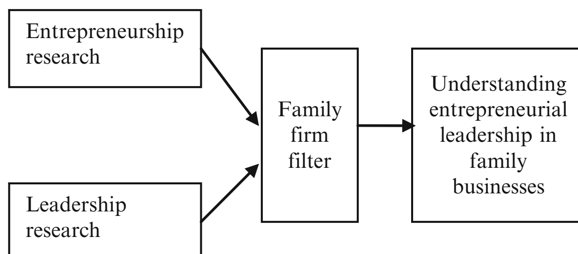

Fig. 11.1 The development of entrepreneurial leadership in family businesses (adapted from Sharma 2006)

ing of entrepreneurial leadership that differs from the mainstream leadership- and entrepreneurship literatures. Maybe the most significant leadership difference between professionally managed and family businesses stems from the role of the family firm founder as an entrepreneur and as member – often the head – of the family. The role of the founder is crucial because it is the founder of a firm who creates the organization's culture and builds the basis for a sustainable leadership style (Schein 1983).

Leader has often been the focus of leadership research, and researchers have explored the traits and behaviors that distinguish an individual leader from a non-leader. Leadership, on the other hand, is the process of influence (Hunt 2004) and reflects a more complex and dynamic phenomenon than that of an individual actor. In a similar way, entrepreneur is not equal to entrepreneurship. Entrepreneurship focuses not only on the entrepreneur, but also on the intersection of that enterprising person and lucrative or entrepreneurial opportunities (Shane and Venkataraman 2000). Combining ideas from leadership and entrepreneurship, then, entrepreneurial leadership concerns the process of influence in an organization that promotes all organizational members to identify and pursue entrepreneurial opportunities.

Definitional issues of what constitutes a family business are complex. Attempts to capture the varying extent of family involvement in firms have resulted in three types of results: articulation of multiple operational definitions of family firms; development of scales to capture the extent of family involvement; and development of family firm typologies (Sharma 2006). In this study, we consider family businesses to be firms where a family has a majority of the decision-making power. More specifically, we agree with the Westhead and Cowling (1998) definition of a family firm as a firm where more than 50% of ordinary voting shares are owned by members of the largest single family group related by blood or marriage, and the company is perceived (by the CEO, Managing Director, or Chairman) to be a family business (Westhead and Cowling 1998, p. 50).

This chapter is organized as follows: We first provide a series of cases of leadership in family firms. Then we review key findings of the literature on leadership in family businesses and tie these to the cases. As a result of this literature review, we identify a gap in the literature where entrepreneurial goals have seldom been considered to be a part of these leadership processes. This finding, then, leads us to consider the nature of entrepreneurial leadership – a specific leadership style – in family businesses. We also propose ways in which family businesses may be able to promote the development of entrepreneurial leadership in their firms. Finally, we give examples from the family business cases that illuminate the challenges of

entrepreneurial leadership in these firms. The last section of this chapter provides conclusions and discusses our research in the light of existing family business literature.

Below, we have provided examples of leadership in family firms, primarily well-known family firms within the United States that are known worldwide. We believe these provide examples of different types of leadership and should be instructive to the reader as how leadership in a family firm can greatly impact succeeding generations.

11.2 Case Examples

We explore family business leadership using three family firms. One, S. C. Johnson & Son, is a five-generation family firm that continues to be extremely successful – as well as family-held. A second, Ford Motor Company, also in its fifth generation of family members, has had a history of ups and downs. Still, at the time of writing this conditions look optimistic for Ford. Although the firm is no longer closely held and subject to absolute family control, family members hold a substantial proportion of the voting stock and are still able to exert considerable influence if not absolute control over policy and operations. Our third example is that of a family firm that self-destructed over a period of about 40 years from 1960 to 2000. The actions of pharmacist Herbert Haft in founding the first discount drug store resulted in the creation of a whole new retailing model, based on discounting and extending to the creation of the "big-box" store. His actions were, however, ultimately disastrous for his firms, for his family, and for Haft himself.

Of the three cases we use in this chapter to illustrate entrepreneurial leadership in family businesses, the founder of just one, Herbert Haft, was reared in a family environment that was clearly entrepreneurial in nature. Henry Ford, whose childhood is moderately well documented, was an eldest son in a successful farming family. One might think of Ford's farmer father as an entrepreneur, most certainly a small business owner. His father had emigrated from Ireland during the potato famine. While one might reasonably think of Henry's father as founder of a successful business, he was hardly an innovator and therefore not truly an entrepreneur by many people's definition.

Little seems known of the family upbringing of Samuel Curtis Johnson, founder of S. C. Johnson & Son. He had a wife and two children, a son and a daughter, when he moved to Racine, Wisconsin in 1882, where he worked for a hardware company selling flooring. In 1886 Johnson bought and expanded their flooring business. Both Ford and Johnson had founded other firms that had failed prior to establishing their successful ventures. And, it is clear that all three – Johnson, Ford, and Haft – were themselves entrepreneurs, founding successful and innovative businesses. Based on their histories, one hardly needs a psychological study to divine a strong need to achieve on the part of each.

In each of our three case illustrations, we see that the founders were committed to the involvement of their children, if not the entire family, in their businesses. When Samuel Johnson's son Herbert Fisk Johnson became a partner in 1906, the elder Johnson changed the name of the company to S. C. Johnson & Son. Although Samuel continued as head of the firm until his death in 1919, he gave his son increasingly important responsibilities. He also allowed Herbert to make unsuccessful innovations, as was the case when Herbert tried to use the wax base as an auto radiator cleaner, thus ruining 900 Model T Ford radiators, which had to be replaced at the company's cost. However, Herbert – and the company – thus learned the crucial importance of research and development, a lesson that became an important part of the firm's culture. The children of later generations were inevitably involved in the family firm, down to the fifth-generation children now in senior positions.

Henry Ford's father had hoped his eldest son would take over the family farm, but Henry was interested in machinery and making things, not growing things. However, unlike Johnson, he did have the foresight to involve his only son Edsel in company management at an early age, despite Henry's legendary dominance of the firm. When Edsel was 17, Henry founded a new company, Henry Ford and Son, to build tractors. That firm was merged with Ford Motor Company in 1920, but Edsel continued a close working relationship with his father. However, as will be seen shortly, despite his desire to allow Edsel the opportunity to innovate and achieve on his own, Henry appears to have had to fight his need for control. After Edsel's early death, of stomach cancer at the age of 49, Henry – who had retired – took back full control of the company, even though he was becoming increasingly incapacitated in terms of his cognitive abilities. Although Ford is a publicly traded company, the largest block of voting stock is still family controlled, and fourth- and fifth-generation family members are currently involved in senior management.

In our third example, Herbert Haft recalls how he and his siblings were, as small children, expected to help out his parents in running the family pharmacy in Baltimore, MD. When Herbert opened his own pharmacy in Washington, DC, he repeated this pattern with his own children, especially his son. Robert, like his sister and brother, helped in the family pharmacy from an early age. This was just as it had been for Herbert with his father. Robert, however, was sent to Harvard to prepare for a major role in the innovative organization – the big-box discount store – his father had created. Like Henry Ford, Herbert Haft had a strong need for personal control as well as a high need for achievement. Unlike Ford, however, Haft was unable to harness his control need and, as we will shortly see, this led to personal as well as organizational disaster.

In all three of our illustrations the founder brought family members – sons – into the company informally when they were quite young and formally in their late teens and early 20s. While it would appear that all of these founders had a clear intention of establishing a family firm, only Haft had direct experience in a family firm and, it appears, only on an informal basis. It seems that Johnson had no family business experience and Ford actively rejected his father's urging that Henry join him in running the family farm, which was apparently a fairly large and profitable operation. Ironically, then, it was Johnson who not only had great success (as did all three, at least initially)

but who established a firm in which five generations have actively – and effectively – participated, without serious operational problems during a 114-year time span.

Sam Johnson, the fourth generation to run the firm, reported that this is how he felt about his father, Herbert Fisk Johnson, Jr., S. C.'s grandson. Sam's parents divorced when he was a child, and Sam spent his childhood shuttling between his father's home in Wisconsin and his mother's home in upstate New York. And when Sam was in Racine his father, "HF," was typically unavailable or out on one of his explorations around the world. "For a long time, I couldn't admit that my father wasn't around enough of the time when I needed him," he says in a film biography. While his father did involve him in the firm he was also critical of Sam, especially after HF suffered a stroke and Sam became CEO. A posthumous letter from HF to Sam made a significant impression. In it HF advised Sam to ignore others' criticism and do what he thought best for the company. Above his signature HF wrote "with great fatherly love."

Despite these issues, it appears that Sam never seriously considered a career outside the family firm. Sam was deeply committed to the company and is remembered as an outstanding CEO. He reported that he tried not to pressure his own children to join the firm, but when it became clear that they wanted to, he created new organizations and organizational units in order to give each an opportunity to take on senior organizational leadership roles without having to compete with one another. All of Sam's four children are active in the firm, with one – H. Fisk Johnson – in the CEO role.

Henry Ford, despite giving his teenage son Edsel significant responsibilities in the firm, engaged in public disputes with him and was even known to humiliate Edsel in public. Even when he became President of the company (in 1919 at age 25) his father would regularly criticize and even reverse major decisions Edsel made, doing so with impunity because on becoming Chairman Henry had quietly redefined and weakened the role of President in relation to his own role as Chairman. And despite all of this Edsel never fought back, avoiding open conflict with his father. The long and difficult business relationship with Henry may have had something to do with the stomach ulcers Edsel developed, which ultimately became cancerous and led to his death at age 49. And despite his years of vehement criticism of his son, Henry was clearly grief stricken at Edsel's death.

Henry resumed an active role as president and CEO after Edsel died, but it was obvious – to everyone but he – that his tenure in this role was a disaster for the company, which began losing substantial sums. Having suffered several strokes Ford was not mentally fit, but members of the board of directors could not face the process of removing him. Fitting the Bowen family systems model, Henry's wife Clara allied with Edsel's widow Eleanor to convince him (some say force him) to retire and name Edsel's son Henry II as CEO.

In contrast to the minor parent–child conflict shown in the S. C. Johnson & Son case or the serious yet surmountable conflicts between Henry and Edsel Ford, Herbert Haft reacted to his son Robert's desire for a greater role in the firm as though he felt personally threatened. Haft initially had been happy in his son's success in founding a book discounting business and a discount auto parts firm and then

applying the "big-box" model to each of these operations. But Bobby's suggestion that he be made CEO of the overall firm, the Dart Group, resulted in his immediate removal from all company operations. The result was years of acrimonious litigation involving all of the family members, parents and children, suing and countersuing one another.

Rather than simple two-person parent–child conflicts, those in the Haft family were characterized by "triangulation." That is, Robert enlisted his mother Gloria on his side of the conflict, but when Herbert saw this he proceeded to remove her from her company roles and then divorced her. Herbert then allied with his son Ronald against Gloria, granting Ronald stock options that would make the firm less valuable as an asset to be split between Herbert and Gloria in their divorce. The total destruction of the organizations the family had created took more than a decade of familial warfare.

It may be that Herbert Haft saw his son's desire for greater control as a threat to his leadership of his firm, due to Herbert's intense early childhood experiences. This would suggest that the role of the entrepreneurial founder's family in developing an entrepreneurial leadership can go awry and result in an individual who is both inculcated with the practice of involving family in the business but is also so deeply fearful of "dangers" to the firm with which he identifies completely that he is unable to effectively transition children into successor roles. Thus, the family can be both the incubator of entrepreneurial success and the source of a ticking time bomb that results in disastrous failure.

What we see in these three cases are the effects of the founder's need for power or control, a need that is a characteristic of leaders in general but particularly evident among entrepreneurs. When this need turns inward and individuals exercise personal control for their benefit alone, the consequences are inevitably destructive, as in the Haft case.

When the power need develops so as to refocus on the involvement and benefit of others (and the firm) and not just the founder, the outcome is typically positive, as is clearly true in the S. C. Johnson case. Throughout the five generations, one sees the family put above the individual running the organization. It is no coincidence that founder Samuel Curtis Johnson, in collaboration with his son Herbert Fisk Johnson Sr., introduced paid vacations for employees in 1900 and group life insurance and profit-sharing in 1917, long before such management innovations were common. In the 1920s, after the founder's 1919 death, Herbert Fisk Sr. introduced a 40-h workweek. Throughout the five generations of Johnson's, it appears that the Johnson CEOs power need was directed more toward the benefit of the firm and its members than used for purely personal goals.

The Ford situation seems to fall between the Haft and the Johnson case. That is, Henry fought bitterly against giving labor and their unions any say in company operations. His efforts at union busting ended only after he had to recast his and his firm's image, badly damaged when his men attacked and killed workers demonstrating against company antiunion policies. Yet on his own initiative, he instituted an 8-h workday (down from 10 h) and more than doubled workers' pay. While these management innovations obviously benefited organization members, they also

benefited the firm. Tired assembly line workers make more mistakes, which increase costs. The new pay rate enabled Ford employees to actually buy the product, thus increasing sales, while also attracting better qualified applicants so as to give Ford an advantage over other auto manufacturers.

It may seem that S. C. Johnson & Son has been all but free of family conflicts, but this is not entirely the case. When Herbert F. Johnson, Sr. died in 1928 he left two adult children but no will. Herbert Jr., who had already been involved in the company for some time, became president, but ownership was challenged by his sister Henrietta, leading to a decade-long negotiation between the two siblings. Herbert felt that his father had promised him the business. Although Henrietta had no role in the firm her husband managed its advertising through his agency. Ultimately, an extremely complex system of voting and nonvoting, ownership and nonownership stock was created along with the division of the stock, determination of who would vote the voting shares, and a series of cross-generation trusts was constructed. Herbert was determined that future generations would not have to face the sort of conflict he had with his sister. The future is, however, not completely clear due to certain aspects of the law regarding trusts and when they must expire by law.

In the case of Ford, all three of Edsel's sons have been involved in the company, with no major conflicts reported among them. This seems, however, not to be the case with the Haft family. As already noted, Herbert Haft's son Ronald, with his father's backing, was in conflict with his brother Robert, while Robert and his sister Linda fought first with their father and later with their brother Ronald. Such family-based triangles are far more common than is generally recognized. This jockeying for leadership positions clearly impacts the entrepreneurial activities within the firms including creating and innovating.

The entrepreneurial founder (whether in a family business or not) must set an example by his or her own leadership of innovative behavior. In the family business, the founder should also make sure that these actions are seen and understood by other family members. S. C. Johnson's key innovation was, of course, floor wax to be used on the parquet flooring he sold. When the wax became very popular, due to its superiority over the common practice of shellacking wood floors as well as to another of Johnson's innovations, mass advertising, Johnson stopped selling flooring and focused on wax. He saw and took the opportunity to develop a wax for automobiles, doing this at about the time his son joined the firm. Then, like Ford, he innovated management practices, instituting the first system of paid vacations in American industry in 1900 and, in the 2 years before his death in 1919 (and possibly on the basis of ideas of his son) developed employee profit sharing and employee group life insurance systems.

Herbert Fisk Johnson Sr. organized one of the first research – innovation – laboratories in an American organization. He introduced many new chemical products developed there. His son Herbert Fisk Jr., who had earned a degree in chemistry at Cornell, continued the innovation tradition with significant new products, the best known was a new floor wax that did not turn yellow. He also hired Frank Lloyd Wright to design and build a new company headquarters, which is still in use although it is also an historic building. Herbert Fisk Jr.'s son S. C. Johnson II, "Sam," was

brought in as head of research and development. His new water-based insecticide, Raid®, became one of the firm's best-selling products. In sum, the Johnson generations continued to model the innovative actions started by S. C. Johnson.

Henry Ford's best-known innovation was the moving assembly line. We noted earlier that he founded a company to manufacture tractors, with his son Edsel having major responsibilities. That firm also used a moving assembly line to mass produce Fordson brand tractors. It would seem that Edsel could hardly avoid observing the innovation. However, once Edsel began generating innovative ideas of his own, his father would regularly ridicule them and resist implementation. An example is the hydraulic braking system, which Ford adopted years after other manufacturers, despite Edsel's having pressed for this innovation early on. Later Henry's innovations centered on management, rather than production. Examples are his reduction of the workday from 9 to 8 h and increasing pay from $2.40 to $5/day.

Although Edsel had to struggle for his father's approval of innovations, his son Henry II, not subject to his grandfather's control need, rapidly initiated a variety of organizational innovations, such as taking the company public with a stock offering, as well as product innovations, such as the very (and long-term) successful Mustang. It may be that as a mature CEO Henry II (often referred to as "Hank the Deuce") could not avoid inheriting some of his grandfather's need for control, shown by his firing of Lee Iacocca, who if he did not design the Mustang certainly was the force behind its development and production.

Herbert Haft, of course, innovated the discounting of merchandise – drugs, initially – which was at the time generally illegal due to the so-called "fair trade" laws. He went on to create the first "big-box" stores, selling a wide variety of merchandise in stores physically larger than had ever been opened in the past. He also innovated the linking of property development with store location. That is, he would purchase low-cost suburban property zoned for commercial development and build on that property. By owning the strip mall that contained a big-box Dart Drug store, he got very low-cost space for his stores while generating rental income from adjacent retail stores. Needless to say, family members were actively involved in implementing all of these innovations and then extending the model to the sale of books and auto parts.

Because the Haft family firms never survived beyond the second generation, there is little to say about long-term or generation after generation modeling of innovation. However, Robert Haft initiated several innovative firms on his own after his father's organizational empire collapsed.

11.3 Leadership in Family Businesses

Vision of what is best for the family is often the driving force behind strategic decisions of a family business. However, in our case examples that is not necessarily what happened. Indeed, a family business is governed and managed with the intention to shape and pursue the vision of the business held by a dominant coalition

controlled by members of the same family in a manner that is potentially sustainable across generations of the family (Chua et al. 1999). Lindow also discusses this in Chap. 13. Such alignment of family and business goals has led researchers to suggest that family business leadership – in the sense of corporate governance – is less affected by agency problems than leadership in nonfamily businesses. The separation of ownership and control, the key conditions giving rise to agency cost in nonfamily business settings, is relatively muted for all practical purposes in founding family-owned firms (Eisenhardt 1989). For example, Randøy and Goel (2003) argue that founder leadership is a substitute corporate governance mechanism that can replace the significance of other monitoring mechanism, such as direct monitoring by outside owners.

Vision of what is best for the business and the family in the long term is a central element in leadership, and also a key area of overlap between leadership research and family business research identified by Hoy and Verser (1994). Effective leadership in a family business is a reflection of the founder's ability to convey her vision to others, especially family members employed by the firm. Problems occur when the founder fails to articulate a vision, and these problems may be particularly challenging when new family members enter the firm and the leadership group. One can certainly see this in the cases above.

In addition to research by Hoy and Verser (1994), specific aspects of leadership in family businesses have been examined by a number of other researchers (e.g., Fiegener et al. 1996; Baker and Wiseman 1998; Dumas 1998; Sorenson 2000; Koiranen 2003; Randøy and Goel 2003; Chung and Luo 2008). With regard to specific leadership styles, Sorenson (2000) employed Dyer's (1986) earlier categorization of family business cultures and studied the prevalence of five different leadership styles in family firms: participative, autocratic, laissez-faire, expert, and referent (Sorenson 2000). According to Dyer (1986), the most prominent type of family business culture was paternalistic (autocratic leadership), where relationships are arranged hierarchically; managers retain key information and decision-making authority, and closely supervise employees (see also Fiegener et al. 1996). Such leadership style can produce low morale and satisfaction, resulting in high turnover (Bass 1990). However, Koiranen (2003) observes a connection between entrepreneurship and paternalism, namely emotionality. Emotionality is a strong psychological force behind any affective reaction, like commitment to a family business. Entrepreneurs themselves and those involved in entrepreneurial businesses are inspired, excited, passionate, and devoted. The prevalence of paternalistic leadership practices in family business may be closely related to the strong emotional connections prevalent in such firms and the need to behave entrepreneurially; characteristics that both typify entrepreneurial family businesses.

Similar issues can result from a laissez-faire leadership style, which allows freedom of choice in decision-making (Bass 1990). Participative leadership – which is often contrasted with autocratic leadership – can be characterized by the leader involving organizational members in decision-making. Such participation can provide an important mechanism for interpersonal processes for adaptation and change in family businesses. Other benefits of participative leadership described in the

literature include conflict resolution, increased decision acceptance, increased job satisfaction, and work enrichment (Bass 1990; Yukl 1998). The final style of leadership that Sorenson (2000) examines in family business context is referent/expert leadership. However, rather than processes of influence, these “styles” are personal attributes of leaders that are sources of power in organizations. Expert leadership derives from specialized knowledge or technical skills, while referent leadership occurs when followers have a positive regard for and desire to please the leader (somewhat similar to charismatic leadership) (Bass 1990; Yukl 1998).

Sorenson (2000) finds that referent and participative leaders of family businesses enable their firms to obtain desired outcomes for both the business and the family. However, these more traditional styles of leadership may be getting less important. Michael et al. (2002) argue that given the changing business environment firms today should focus on entrepreneurial management instead of the traditional styles of strategic management. Companies should stay focused on discovery, development, and growth rather than the coordination-focused administrative management. Business owners are fighting a constant battle as their businesses grow to avoid the traps of administrative management, and the single most important driver for the shift from administrative to entrepreneurial management in the business society in general is the increasing pace of technological advances (Michael et al. 2002). It is because of the recent changes in business environment and managerial challenges – race to innovate, need to lead in a multicultural setting, development of a learning organization, globalization and the emergence of new economic powers, just to mention a few – that practitioners as well as academics have started to embrace entrepreneurial leadership. Family businesses are facing these changing environmental forces like all other businesses are, and the need for entrepreneurial leadership is evident. Furthermore, entrepreneurial leadership may help family businesses in dealing with some of those challenges that are typical for these types of firms. Embeddedness of the family and business systems makes family firms a ripe context for misunderstandings between family members, giving rise to conflict (Sharma 2006). To the extent that entrepreneurial leadership can empower employees and promote an appropriate level of autonomy, it may direct organizational members’ attention to new entrepreneurial opportunities and away from potential sources of relationship conflict, for example. These and other benefits of entrepreneurial leadership for a family business are described in more detail in the next section.

11.4 Promoting Entrepreneurial Leadership in Family Businesses

Entrepreneurial leadership emerges at the intersection of entrepreneurial behaviors and good leadership practices. It concerns the process of influence in an organization that promotes all organizational members to identify and pursue entrepreneurial opportunities. This goal of the leadership process – identifying and pursuing entrepreneurial opportunities – distinguishes entrepreneurial leadership from other styles of leaders previously highlighted in family business literature (e.g., Sorenson 2000).

McGrath and MacMillan (2000) emphasize the need for an entrepreneurial mindset in today's fast-changing organizations, and they define entrepreneurial mindset as a "way of thinking about your business that captures the benefits of uncertainty" (p. 1). Fernald et al. (2005) as well as Cogliser and Brigham (2004) studies suggest that we can better understand the domain of entrepreneurial leadership if we first compare the characteristics of entrepreneurs and leaders. More specifically, Fernald et al. (2005) suggest that this approach can lead to a development of a model that specifies the personal characteristics reflected in those who practice entrepreneurial leadership. The characteristics common to both leaders and entrepreneurs identified based on a review of 136 sources include "able to motivate," "achievement orientated," "creative," "flexible," "patient," "persistent," "risk-taker," and "visionary" (Fernald et al. 2005). Similarly, Cogliser and Brigham (2004) conclude that the areas of thematic overlap across leadership and entrepreneurship include vision, influence on both followers and on a larger constituency, leading innovative and creative people, and planning.

To complete the list of attributes that have been suggested to characterize entrepreneurial leaders, Thornberry (2006) suggests that entrepreneurial leaders have a strong internal locus of control, high tolerance for ambiguity, and a strong desire to create, build, or change things. As a summary, the characteristics of entrepreneurial leadership in family businesses could include having a vision of the future of the business that is based on continuous recognition of new entrepreneurial opportunities, and pursuing this vision through creative, innovative, and sometimes risky tactics. This type of entrepreneurial leadership in family businesses is exhibited by the leader (founder) herself, but even more importantly the leader guides the followers (employees) to pursue goals that are driven by entrepreneurial opportunities. In a family business – more so than in any other form of business – these entrepreneurial opportunities that are being pursued have to be both lucrative in an economic (market) sense, and they also have to be aligned with those values and standards that are at the core of the family firm.

The dual roles of the entrepreneurial leader include serving as an example for followers, as well as directly influencing followers' actions by providing encouragement, resources, and incentives (Gupta et al. 2004; Thornberry 2006). One type of entrepreneurial leader, a market-focused explorer, concentrates on developing new markets, services, and products. In so doing, they exhibit highly innovative and proactive behaviors. As entrepreneurial leaders, "miners" are more concerned with operational issues and make the company run more efficiently while serving customers better. In the case of miners, innovativeness and proactiveness are demonstrated in processes rather than in products, which is the case with explorers. Accelerators are a third type of entrepreneurial leaders. They are also company-focused, but from a human resources management perspective; they constantly challenge their colleagues and subordinates to think and act in more innovative ways. In so doing, they promote "intrapreneurial" behavior in the organization. Finally, "integrators" embody these skill sets of explorers, miners, and accelerators, and look at the big picture, concentrating on the strategy of the company as a whole (Thornberry 2006).

Direction, organizational renewal, and innovativeness enabled by entrepreneurial leadership are particularly important for family businesses for three reasons.

First, leadership can be helpful in dealing with misunderstandings and conflict, which often arise from the embeddedness of the family and business systems (Sharma 2006). This is consistent with the views held by Carsrud and Brännback in their introduction in Chap. 1. This also can be seen in the cases discussed above.

Second, entrepreneurial leadership can help in developing, communicating, and reinforcing desired vision and organizational culture over extended tenures of leaders and across generations. Third, entrepreneurial leadership can direct attention to the entrepreneurial role of all organizational members, not only family members. There is a need to devote more attention to understanding the perspective of nonfamily employees; entrepreneurial leadership can be employed in trying to understand issues that are important to them, and lead to superior performance of these individuals along various dimensions.

11.4.1 Setting an Example

In a classic article Schein (1983) points out that it is the founder's assumptions – often unstated and perhaps even unconscious – that are the basis for the values that drive actions and patterns (or norms) of behavior that can be observed and are typically identified as "how we do things around here." The founder's assumptions are shaped by his or her family as well as acting to shape the family culture that will affect (if not define) the organization's culture. In practice, separating family business leadership and culture is somewhat artificial; leadership and culture are interrelated (Ward 1987). Both influence the long-term success of the family firm, and while leader behaviors shape the culture of the enterprise, the underlying values and assumptions (culture) of the enterprise also influence the leadership styles adopted. This may also explain potential conflicts in intentions noted by Brännback and Carsrud in Chap. 3 on intentions and social norms.

An entrepreneurial family business leader serves as an example of opportunity-focused behaviors for the followers, creating a culture for innovation. There is a contingent relationship between a leader's personal characteristics and the situational needs of the organization (Rubenson and Gupta 1996), and an entrepreneurial leader is able to view changing environmental, market, and competitive conditions as opportunities for entrepreneurial initiatives. Such a leadership style sets an example for others in the organization to follow.

11.4.2 Inspiring Followers

In addition to acting as a role model when it comes to entrepreneurial behaviors, entrepreneurial leaders also encourage their followers (e.g., employees of a family business) to take on entrepreneurial roles through encouragement, guidance, and resource

allocations. Providing access to resources is an integral part of creativity-supportive behavior and opportunity evaluation (Tierney and Farmer 2004), and is central in entrepreneurial leadership. In their advice to entrepreneurial leaders, McGrath and MacMillan (2000) emphasize the need to allocate top organizational talent as well as budget and operating capacity for entrepreneurial initiatives. From the perspective of employees, pursuing entrepreneurial opportunities cannot proceed beyond initial ideas unless concrete resources are available. In addition to resources, also encouragement, flexibility, and patience from leaders are essential for family business employees' opportunity-focused behaviors to flourish. Encouragement, advocacy, and goals specific to creative behavior are essential elements of entrepreneurial leadership. Clearly, this impacts the intentions of an individual to enter or not enter the family firm, a topic covered by Brännback and Carsrud in Chap. 3.

Benefits of entrepreneurial leadership may be particularly important for family businesses. First, such leadership can be helpful in dealing with misunderstandings and conflict, which often arise from the embeddedness of the family and business (Sharma 2006). Relationship conflicts, which include disagreements based on interpersonal issues, likes and dislikes, and disaffections (Jehn 1994), hamper many family businesses (Kellermanns and Eddleston 2004; Sharma 2004, 2006; Ensley and Pearson 2005). To the extent that a focus on entrepreneurial goals can give organizational members a common objective they can all identify with and support, entrepreneurial leadership may have a role in reducing relationship conflict in a family business. At the same time, idea conflict (which is focused on judgmental differences about how best to achieve common goals) has been considered to be functional and necessary for performance (Kellermanns and Eddleston 2004; Ensley and Pearson 2005). Under entrepreneurial leadership, each member of a family business organization strives to come up with entrepreneurial solutions to business problems, increasing the number of novel ideas considered by the organization, and hence potentially increasing idea conflict and improving overall decision quality and insight into ideas.

Besides its effects on conflict, entrepreneurial leadership can direct attention to the entrepreneurial role of all organizational members, not only family members. There is a need to devote more attention to understanding the perspective of nonfamily employees; fair decision processes in family firms are paramount to their retention and job satisfaction (Blondel et al. 2000; Barnett and Kellermanns 2006). Without effective leadership, the family influence may unnecessarily affect human resource policies and procedures as the family unit's values and goals are integrated with those of the business (Barnett and Kellermanns 2006). Entrepreneurial leadership, with its central focus on recognizing and exploiting opportunities, can provide a unified framework within which all employees – family members as well as nonfamily employees – are similarly encouraged to achieve and held accountable for the achievement of entrepreneurial goals. Entrepreneurial leaders may be able to communicate effectively about and offer explanations for the way in which certain policies and procedures are implemented. This should reduce family bias and favoritism, which may otherwise lead to perceptions of unfair treatment among nonfamily employees (Carsrud 2006).

11.4.3 Passing on the Torch

Family firm succession is a topic that has gathered interest of numerous researchers (Sharma 2004, 2006). Being raised in a family that is focused on the success of an entrepreneurial venture is likely to instill a “need for achievement” (McClelland 1983), especially if a child is actively involved in the enterprise. Such involvement is also likely to help a child to develop a sense of personal control, a feeling that he or she is capable of achieving desired goals by means of his or her own actions. Through their involvement in a family business, the children of the founder(s) also adopt the key elements of the prevailing leadership style of the business. A strong culture that is characterized by entrepreneurial leadership may smooth the succession of the family business from one generation to another, since the key organizational values and objectives should remain unchanged. Overall, entrepreneurial leadership can help in developing, communicating, and reinforcing desired vision and organizational culture over extended tenures of leaders and across generations.

Focusing on the creation and exploitation of new entrepreneurial opportunities for the business may also help successors legitimize their advancement to leadership positions. Second-generation key leaders face the challenge of ability when they enter leadership positions as they did not contribute to the founding process, and they may also have been on a special “track” designed by the founder to climb unusually fast on the corporate ladder (Chung and Luo 2008). In their eagerness to quickly prove themselves, they may seek out entrepreneurial opportunities that allow them to prove their business savvy. Successful identification and exploitation of new opportunities by the family business under the leadership of a second-generation leader may convince the followers as well as key outside stakeholders of the new leader’s abilities.

There are some obvious factors, supported by research, that help or hinder efforts to maintain an organizational culture that fosters innovation and thus remains entrepreneurial. Unsurprisingly, the longer the tenure of the founder the more conservative and less innovative she or he is likely to become. Similar tendencies are observed among family members who are dependent on the firm as a source of income but who are not directly involved in organizational operations. On the brighter side, family members other than the founder who are actively involved in company operations are likely to retain a sense of optimism that facilitates continued innovation. What, however, must founders *do* to establish and reinforce a culture of innovation?

We see three key actions. First, the entrepreneurial founder (whether in a family business or not) must set an example by his or her own innovative behavior. In the family business, the founder should also make sure that these actions are seen and understood by other family members.

The second important tactic is for founders to instill innovative practices on the part of others. They do so largely by modeling and mentoring family members with regard to innovation. We saw this in the above discussion of innovation across generations at S. C. Johnson & Son. Henry Ford did this, too, in his early relationship with his son Edsel. Even in the Haft case, it is clear that Herbert was both model and mentor to Robert.

The third way that founders ensure that the organizational culture remains entrepreneurial is by involving their children in the firm informally at an early age and formally when they are still relatively young. Again, we see this pattern quite clearly in all three of the cases, with second-generation family involved as children and, formally, in their late teens and early 20s.

11.5 Research Questions for Entrepreneurial Leadership in Family Business

The above discussions and cases raise several research questions that need to be more fully explored:

1. How does the entrepreneurial founder of a family firm set an example for innovation within the company?
2. Can this example be extended across multiple generations? If so, how?
3. What specific behaviors of the founder make others within the firm, both family and employees, develop new innovations and behave more entrepreneurially?
4. How does the founder make sure that an entrepreneurial culture of leadership is transferred to successors who follow?

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Chapter 12
Do Family Councils Really Work? The Need for Empirical Study

Carmen Bianchi and Keanon J. Alderson

12.1 Introduction

Governance continues to be among the most important issues facing family businesses. The widely accepted three-circle model of family, management, and ownership (Tagiuri and Davis 1996) employs a board of directors to address governance at the intersection of ownership and management; however, this significantly ignores the family's interests. The family and the business are often so enmeshed that emotions are simply inevitable (Alderfer 1988). To correct for this oversight, family meetings, family councils, and family constitutions are often advised by family business consultants. Family councils are formed to benefit family members in the areas of planning, policy making, and strengthening business–family communication. Family councils became popular in the mid to late 1990s; however, to date, no research has been undertaken specifically to determine if this governance structure, in fact, adds value to the family or to the business. Much of the literature on family councils has been of a tertiary nature; the majority of which has been in books (Gersick et al. 1997; Lansberg 1999; Aronoff and Ward 2002; Hilburt-Davis and Dyer 2003). Additionally, much of the literature has been authored by consultants (Jaffe 1991; Leach and Bogod 1999; Daschew et al. 2005; Leach 2007), as opposed to by researchers publishing in peer-reviewed journals, utilizing well-designed empirical research specifically for the purpose of creating new knowledge regarding family council effectiveness. In a search of the journal *Family Business Review*, 50 articles were identified using the search term "family council." None of

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the articles had a specific focus on family councils, and none had family council as the title of the article.

Compounding the lack of literature on family councils is the need for a generally agreed-upon definition of what a family council actually *is*, and what role it plays within the family and the organization. The main purpose of this chapter is to call for more research in this important yet understudied area. As an initial step, we will provide a suggested definition of family council, followed by a discussion of how a council differs from a family meeting, a shareholders' meeting, and the board of directors. We do not intend this definition to be "the be-all and end-all," but our desire is merely to provide a starting point for scholarly research. Fellow researchers are strongly encouraged to argue, to debate, and to present contrasting evidence, in order to move our knowledge of this important subject forward together.

12.2 What Is a Family Council?

There is significant misinterpretation and lack of a generally agreed-upon definition of what the term "family council" means. Consultants and family members use several similar terms interchangeably with family council, such as a family meeting, a family forum, a family assembly, "the board," or an ownership or shareholders' council. As an example, John Ward's (1987) classic "Keeping the Family Business Healthy" mentions family councils, but in terms that describe them as a support group for successors to discuss generational issues of importance to the "Sons of Bosses" (p. 199). More recently, Ward (2004), in a discussion of family meetings, described councils as associated with larger families.

In larger families, the meetings are organized and run by the family council, a body elected by family members to oversee the affairs of the family as a family. In smaller families, the family itself operates as a council and plans the meetings (p. 114).

This example by one of our most well-respected family business scholars and practicing consultants shows that the definition of a family council has evolved and changed over time. Lansberg (1999) discussed the family council as one of the three pillars of family governance, with the remaining pillars consisting of the shareholders and the board of directors.

12.2.1 Differences with Other Governance Structures

Table 12.1 displays the differences between a family council, family meetings, a family assembly, and the board of directors. As described, the family assembly is closely related to the family council.

Family meetings can be a first step to more professional management of the family firm. Often a series of family meetings is held to discuss important issues, to increase communication, and to keep the family members involved in the business.

Table 12.1 Comparison of governing bodies of family businesses (International Finance Corporation 2008, p. 31)

	Family meeting	Family assembly	Family council	Board of directors
Stage	Controlling owner	Sibling partnership Cousin Consortium	Sibling partnership Cousin consortium	Any
Status	Informal	Formal	Formal	Formal
Membership	Usually open to all family members	Usually open to all family members, other membership criteria set by the family	Family Members elected by the family, other membership criteria set by the family	CEO and elected members. Ideally consists of nonfamily outsiders
Number of meetings	Due to fast growth, the meeting schedule may be flexible and called as often as needed	1–2 Times annually	2–6 Times annually	Usually quarterly
Activities	Communication of the family values, mission, and vision Discussion of new business opportunities	Discussion and communication of new ideas, disagreements, and long-term planning Creation and approval of family-related policies and procedures Informing and educating family members Election of family council members	Discussion and development of family-related policies and procedures Conflict resolution Long-term planning Coordination with the board of directors	Official oversight of business policies and procedures. Oversight of management

Meetings are commonly utilized when the business grows and when the second generation enters the family business and desires more communication with the first generation/founders. Most commonly, family meetings are very informal. The term *family forum* often appears interchangeably with family meeting and usually meets once yearly, with the purpose of building relationships, providing information, and educating members (Hilburt-Davis and Dyer 2003). The ownership or shareholders' group is comprised solely of the owners of the firm and does not include nonowning family members.

The family council is composed of inside- and outside-the-business family members. Council members may be both owners and nonowning family members. Family council meetings are held more often, usually several times per year, and decision-making is a key focus. A family council takes the informal concept of family meetings a step farther. It entails much of the purpose of the family meeting, such as improving communication and airing various points of view; however, it initiates a more formal approach to the professional management of the family firm. A family council institutes a democratic voting process as a way of making decisions. When the family moves to the family council as a tool of governance, the family members often agree to make their decisions by a formal vote, with decisions made either by a simple majority or by consensus. Some families strive for unanimity, which can tend to delay time to a decision, but which increases family unity (Alderson 2009). Leach disagreed with the concept of voting and recommended family members utilize the consensus approach. He believed voting should be used as "a last resort" (Leach 2007, p. 138).

Aronoff and Ward (2002) discussed family councils as most usually found in what they referred to as "Stage Three" and beyond (p. 39). This stage is most commonly considered the cousin consortium, and it follows the sibling partnership and controlling owner stages. Aronoff and Ward (2002) discussed councils as formed under a charter to perform specific tasks or functions. Aronoff and Ward gave several examples of families utilizing councils to open a family office, to establish a family venture capital fund to invest in the younger members' entrepreneurial activities, or to purchase investment or recreational real estate (p. 41).

For the family council to be effective, the family members need to realize the family council meeting is the appropriate time and place to present their points of view and discuss any issues. The alternatives should be presented and weighed in a process that encourages family members' viewpoints and concerns. The diversity of opinions, alternatives, challenges, and concerns creates an improved and more rational decision-making process. One of the key strengths of the family council is that family members agree to abide by the collective decision, even if they disagree or are a member of the minority, and consent to show support and unity for the family decision.

Jaffee (2005) described the two dimensions of family and the business. The family council is utilized as a tool of the family to discuss issues of importance to both the *family and the business.* The board of directors is utilized to carry out the will of the family with regard to business issues. The family council can discuss issues of importance to the family, such as family employment policies and family termination

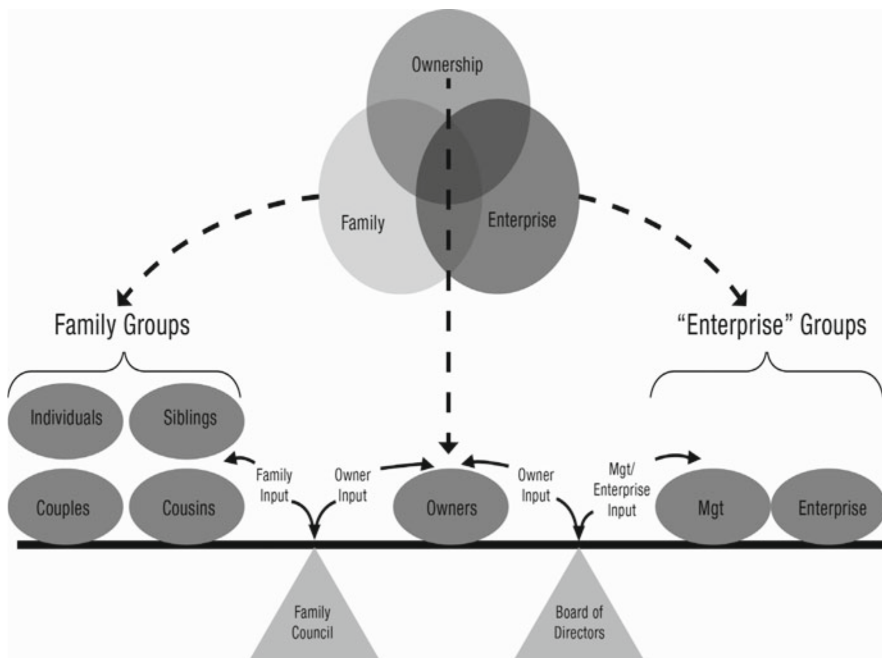

Fig. 12.1 Interaction of family council with other areas (Family Firm Institute, http://www.ffi.org/)

policies and procedures. The family's decision is then communicated to the board of directors for implementation in the business. Having important family issues such as these discussed in advance and having a set policy already in place can improve the efficiency of the firm and reduce the need to discuss personal issues when emotions are high.

Figure 12.1 presents a model of how the family council and the board of directors interact with other areas of the family and the business (enterprise).

12.2.2 Working Definition of a Family Council

A generally agreed-upon definition of family council would allow the study of this important subject to further advance our knowledge. This situation is similar to the very familiar lack of a standardized definition for family business. This has been a major impediment to the growth of the family business scholarly domain as separate and distinct from either entrepreneurship or management (Chrisman et al. 2003). It also obviously makes generalizations and comparisons between studies more difficult, if not impossible, similar to comparing apples and oranges.

The following working definition was created based on one of the coauthors' significant consulting experience within family business and a search of the family

business literature. The intent is for this to serve as a baseline for a more comprehensive definition and understanding of family council:

> A family council is a platform where the voices of family members of a family business can be heard. It is not a legal entity and has no fiduciary responsibilities; however, it is the governance structure of a family business wherein the emotional issues of a family business are addressed. It is rarely found in corporate America, but the family council does and should create the vision and articulate the values of the family business. It is where family members create the criteria and guiding principles for family members entering and exiting a family business. Pertinent issues such as compensation, employment, leadership, succession, education, mentorship, and development are discussed, and governance structures are created around these issues. Officers are elected usually for a two-year term and consist of a chair (CEO or Chief Emotional Officer) secretary, treasurer, historian, and social venue officer. In many family councils, the entire family is welcome to participate. The members vote, and in larger organizations, forward their decisions to the board of directors for implementation.

12.3 Need for a Family Council

When reviewing the websites of family business consultants and examining the services they provide, the creation of a family council, board of advisors, or family retreat is commonly recommended by the consultant as an important part of high quality professional governance and as a way to increase family communication. It is noteworthy and quite interesting to have such a dearth of scholarly and peer-reviewed literature concerning such commonly recommended “solutions.” It is the role and responsibility of family business researchers to provide practicing consultants and family business owners with the proper justification for the use of a family council by effectively grounding it in good research.

In the spirit of family harmony, many family businesses squelch any differences of opinion and thus stifle much of the constructive and healthy debate. It is difficult for sons and daughters to disagree with their parents, because such action is often seen as disloyal or disruptive (McCann 2007). This lack of open communication has the effect of limiting healthy discussion and losing potential business opportunities, as well as impeding the entire strategic planning process. The effect is often a forced dependence upon the status quo, resulting in reduced market share, lack of investment in new and emergent businesses areas, failure to recognize competitive threats, and product stagnation (Ward 1987).

A heavy dependence on a single entrepreneurial founder characterizes the centralized decision-making process common in the majority of first-generation firms (Dyer 1986, 1988; Feltham et al. 2005). Aronoff and Astrachan (1996) found that 34% of founders made the decisions themselves, 48% of family businesses searched for a consensus, and 6% discussed the issue and took a vote. It is interesting to note that 53% of the voting group is made up of the third generation of family leadership, the cousin consortium. Aronoff and Astrachan (1996) suggested this would entail a higher level of governance and professionalism. Tools such as the family council

can enable a family to increase the level of communication in a family firm and professionalize the governance of the firm.

A common issue among future generations in a business is the continuing influence of the founder that towers above the entire organization, a phenomenon referred to as "Founder Centrality" (Kelly et al. 2000, p. 27) or "Generational Shadow" (Davis and Harveston 1999, p. 311). Such influence can have both positive and negative factors associated with it. It helps future generations, in that they tend to follow the original mission or vision of the organization as set by the founder, including caring for long-term employees, the community, and their customers. The influence becomes negative if the successive generations are not allowed to make their own decisions or are second-guessed by a meddling founder who has not fully retired. This negative influence has been a major reason for succeeding generational members exiting the family firm. The family council may be a way to allow the next generation of leadership to emerge from under the negative shadow of the founder.

Mustakallio et al. 2002 in discussing their relational view of governance, concluded a shared family vision was positively related to social interaction and to improved decision quality and commitment (p. 218). They proposed an institution such as the family council could increase social interaction among family members.

A study of 1,454 top managers in small and midsize family businesses found that 34% had argued about the future direction of the company and 27% had argued about the contribution of other employed family members. Twenty percent experienced tension over the roles of in-laws, who was and was not allowed to work in the business, and a lack of consultation with other family members on key decisions (PricewaterhouseCoopers 2007/08). These types of family-related decisions can come to the family council for discussion, followed by the creation of official family-related policies.

In a survey of 1,143 US family firms, 60% did not have a strategic plan and 38% of shareholders were not aware of the senior generation's estate plans and ownership transfer intentions (American Family Business Survey 2002). A significant majority (79%) of the senior management of 89 mid-sized family companies in the United States did not have procedures to aid or prevent conflict resolution. The most contentious issues are often disagreements over the future strategy of the business, reported by fully one-third of the respondents (PricewaterhouseCoopers 2007/08). These serious issues can be strongly divisive and can affect the effectiveness and performance of the family firm.

Participative decision-making has been shown to increase the amount of positively related *cognitive conflict* in multiple generational firms; however, in first and second generation firms, this was not shown to be the case (Eddleston et al. 2008). Eisenhardt (1989) showed that conflict tended to delay the decision process; conversely, the resolution of conflict was associated with fast decision-making. The family council exists as a tool for the family to be able to discuss and possibly prevent negative and disruptive family conflict.

The concept of a family council is universal. The Handbook of Family Business and Family Business Consultation (Kaslow 2006) discussed family councils from Brazil, Canada, Saudi Arabia, Scotland, the United Kingdom, and the United States.

Leach (2007) devoted slightly more than four pages to UK family councils in his book, "Family Business: The Essentials." Leach discussed councils as vital for communication improvement and healthy family functioning. He detailed a case study of the venerable United Kingdom-based Clarke Shoe Company and related how the family council saved the firm from family crises and possible breakup. Lansberg and Perrow (1991) reported an earlier use of family councils among the large Latin American *groups* than with American family firms, and called family councils a "virtual requirement" (p. 142).

In a study of boards of directors in 73 Italian firms, Corbetta and Tomaselli (1996) reported only 10% had a functioning family council. In a study of 192 first, second, and third generation Finish family firms, 75.4% had informal family meetings, 26.7% had formal family meetings, 17.3% had family plans, and only 7.3% had family councils (Mustakallio et al. 2002, p. 211). Accounting for the preponderance of council use in older third generation firms, the percentage of council use was low, considering the emphasis placed on family councils by family business consultants. In a study of 231 family firms in Washington State, council use was found to be higher among firms with less than $10 million in revenues and for those with more than $50 million in revenue. The study also showed a greater use of councils among more mature firms (Leon-Guerrero et al. 1998). Handler (1994), in a review of the succession research, proposes the creation of family councils as a way to increase communication and discussion regarding succession.

12.4 Mini-Case Studies

Two brief cases will allow the reader better comprehension of the power and effectiveness of a successful family council, as well as to present the risks and what can result when the business does not provide for the needs of the family. Learning lessons are discussed from the point of view of a successful integration of a family council, and of a council that failed to develop properly. Both cases are of actual businesses; however, the names and business details have been changed for confidentiality purposes.

12.4.1 Mini-Case 1: The Carrington Manufacturing Company

This case reviews the successful implementation of a family business council to improve a myriad of issues at a second-generation sibling partnership concerning compensation, inactive family owners, employed family members, and entry and exit of family members from the firm.

The Carrington Manufacturing Company had been in existence for over 75 years. The founder, upon his death, provided for his son and daughter by splitting the ownership into two equal parts: in effect, 50/50 ownership. However, the son Jonathan,

who was older by 2 years, was given 75% of the voting stock, which effectively gave him control of the company. Jonathan had worked at the family firm "as long as he can remember," and had the title of President and CEO. Susan started doing internships at the company during high school and college and entered the firm immediately after college. Susan was Executive Vice President.

The sister (Susan) left to go on a sabbatical. The sabbatical lasted 5 years. During this time, Jonathan grew the business from $100 million in sales to over $650 million annually. Susan did not intend to return to her position until her son, James, became interested in joining the family business. James had no work experience, yet wanted to take on a higher-level management position "befitting his status in the family." Jonathan wanted James to work somewhere outside the family business to get some outside experience. James went on eight outside job interviews and was not hired. Jonathan eventually found James a job utilizing his professional contacts; however, James did not last long at the job. James said that the culture of the company did not fit in with his beliefs and that he was bored and could not make any friends. He left the position within 4 months.

After much deliberation and discussion with a consultant, Jonathan reluctantly gave in to the pressures the family placed upon him and gave his nephew a position, but not at the requested level. James was given an entry-level position befitting his work experience and skills. Susan was displeased with the position her son had been offered. The disagreement between Jonathan and Susan heightened when Susan declared that she wanted to end her sabbatical and come back to the firm as an executive vice president again. At this point, Jonathan became frustrated, called in a family business consultant, and asked, "What do I do?" The consultant interviewed Jonathan and Susan and made an initial assessment of the situation. The consultant asked Jonathan if there were any criteria for a family member to enter or exit the firm, but there were none. The consultant asked about buy–sell agreements, and there were none. However, when the topic of buy–sell agreements arose, Susan wondered aloud, "Why would I consider selling when you are doing such a great job?"

The consultant recommended creating a form of governance structure for family members: a family business council whereby the family members participating in the family council could create a code of ethics depicting entry and exit strategies, compensation, termination, and other guiding principles for family members wanting to work in the family business. The family council would consist of all family members, including spouses. The consultant would facilitate the council meetings, thus alleviating any potential misconduct that could result in the council meeting deteriorating into chaos or inactivity.

12.4.1.1 Issues

When Jonathan made certain expensive lifestyle types of personal purchases, Susan commented, "Why don't I get that?" It was the consultant who pointed out that Jonathan earned them with his remuneration from his employment at the firm.

Susan lived on her 50% share of the ownership dividends. Jonathan had both dividend income and significant employment income.

Jonathan had previously hired his brother-in-law, and this had become an issue for Susan, since she felt the business should hire her son and that a precedent had been set for hiring family members. The consultant was the one to point out that the brother-in-law had significant work experience and skills, which was why he was not brought in at an entry level position.

Susan desired to reenter the firm at the same level as she left it 5 years earlier, as a vice president. The consultant asked her in what specific area she felt her expertise would be useful; she replied in marketing. After some follow-up questions concerning her experience in marketing, her familiarity with the products, and her knowledge of the website, which were all negative, the consultant reminded her that without the knowledge and experience in the marketing area, she would be coming in to a position with employees who knew more than she did. This would cause a lack of respect among the employees, create disgruntled employees, and be a serious disruption to the business.

Susan determined that marketing was not the best position for her to reenter the firm. Susan created a significant report-sized document tracing her history at the firm, what caused her to leave, and why she was returning. The act of preparing the document seemed to be a cathartic process for her, and as a result, she decided not to come back to the family business as an employee, but rather as an ambassador or PR person who could promote the image of the company at public functions.

At the first council meeting, Susan came in prepared to discuss (vent) about another separate family-owned company run by her sister. The consultant quickly stopped talk on that subject, as the company was separate from Susan and Jonathan's company and had no bearing on the business.

12.4.1.2 Current Update: The Carrington Manufacturing Company

It has now been almost 15 years since the death of the founder. The council was instituted 3 years ago. The council meets twice a year in a 2-day retreat format. The original consultant continues to facilitate the council.

12.4.1.3 Learning Lessons

- The consultant in this case filled a vital role. Without his participation as the facilitator at family council meetings, the council would have resulted in chaos and inactivity.
- Involving the in-laws in the family council is highly recommended. This serves multiple purposes, such as hearing their voice and increasing the level and availability of communication, rather than having them hear about an issue or decision that affects them second-hand. Including the in-laws in the council prevents

them from "feeling like out-laws rather than in-laws." Most importantly, involving the in-laws in the family council avoids the problem of triangulation, where a third party is brought in to the conflict or situation.

- It took 2 years for the family council to create the family code of ethics and the entry/exit policies and criteria. This shows the length of time it can take for some of these more sensitive family issues to be discussed and put in place.
- Determining the criteria for entry into the business avoids the concept of family freeloading.
- A university education is now required of family members wishing to enter the business, with outside workplace experience being preferable, but not compulsory.

This case demonstrated the importance of the council discussing the significant issues in advance, proactively, before being required to discuss issues when they present themselves and emotions are high. Personal issues tend to have high familial conflict potential. This small case exemplified the true purpose and effectiveness of a family business council: as a function of the governance structure of the family business, *and* at the same time, as a mode of communication that allows everyone's voice to be heard.

12.4.2 Mini-Case 2: The Beauty Products Inc. Case

Beauty Products Inc. was a family firm that had been in business over 12 years. The company was founded by Ralph Strong. His son, Robert, worked with him and was an integral part of the business. The company was a $5 million beauty products manufacturer.

Ralph and Robert were different types of individuals. Ralph's management style was very hands-on, to the point of micromanaging, whereas Robert was easy going and had a laissez-faire approach. Based on Robert's urging, the firm diversified into a closely related area, beauty salons. The diversification was extremely fast growing and lucrative, eventually accounting for 25% of the total business income.

The family business consultant they were working with encouraged the Strongs to create a family business council. The council membership consisted of Ralph, his wife, and his children, all of whom were in their mid to late 30s. Ralph was encouraged at the council meeting to allow Robert to get out from under his shadow. He could do this in several different ways, but the main idea was to create a separation of the two businesses. This way Robert could be free to pursue his dream in the beauty salon, being as innovative and creative as he wished to be without having the constraints of Ralph micromanaging him. Ralph, in turn, could continue to manage his part of the business, which would be the parent company of Robert's subsidiary. Other issues members brought up at the council meeting were the creation of a subchapter S corporation, letting Robert buy his division, which was bringing in 25% of the business, or simply giving the salon business to him and letting him "run with it."

Ralph was open to the ideas; however, 2 months after the council meeting, he appeared to change his mind and decided not to pursue any ideas that would reduce his power or control. Ralph did not know how to let go. He wanted to give his son the freedom to develop this subsidiary company, yet he could not bring himself to the point of a total separation of power.

12.4.2.1 Current Update: Beauty Products Inc.

As a result of the lack of confidence that the father, Ralph, had in Robert, Robert had left the family business. He created and operated his own company after borrowing, from friends and customers, the capital he needed to get the company off the ground. The relationship between father and son was strained. However, the most recent quarter had brought in good results, with Ralph's company showing increasing sales and excellent profit margins. Ralph reconsidered offering the subsidiary they had first contemplated creating, proposing a merger with the new company Robert had created. It was now up to Robert to decide whether he wanted this arrangement or whether he would continue as an independent, successful young entrepreneur, who may eventually buy his father out.

12.4.2.2 Learning Lessons

- Ralph lost his son over his decision. His inability to look inward and focus attention on his management style led to the son's decision to leave the family firm.
- Robert learned to stand on his own two feet and trust his entrepreneurial instincts without the blessing of his father.
- The father, Ralph, now faces some estate tax issues. His son, the apparent heir to the company, may no longer wish to be a part of the estate plan as he successfully and separately grows his new company.
- Leadership must be willing to let go of some power and control in order to allow the family council to perform its function. This must occur in order to take the business to increasingly higher levels of professional management.
- If the dominant decision maker in the family business favors a large amount of control, the family council needs to create an awareness of the consequences of this action.
- Did the family council push the envelope in making the father realize that by being a "monarch" (Sonnenfeld and Spence 1989), he could lose his company altogether? He could be forced to sell as his only alternative, and the business would no longer be family owned.
- Can the family council salvage the family business through open discussion and in sharing the values and the vision of each and everyone involved?
- The council would have been the right vehicle and governance structure to have increased the communication, given everyone a voice, and possibly prevented the breakdown and dysfunction.

12.5 Research Methodologies

Consistent with several calls for increased variety in research topics and methodologies in family business research (Sharma et al. 1997; Bird et al. 2002) and with a special issue of the Family Business Review (2010) on underutilized research methodologies in mind, family business researchers should continue to advance the scholarly domain of family business with good quality research. If a family business owner or layperson were to read the literature concerning the use of family councils, he or she most likely would be under the impression that a family council is an important component of a well-run family business. In fact, researchers have conducted no well-designed, in-depth studies to address whether a family council adds value. Instead, what exists *ad nauseum* are single or small case studies detailing how a successful family firm provides governance, with the family council most often as a brief side note to these stories. This is similar to an artist who uses only one color of paint. To increase our knowledge of family councils and to provide good, sound research which can be utilized to increase family business effectiveness, family business researchers need to design high quality, empirical research studies utilizing the entire variety of research methodologies and techniques. It is in this manner that our scholarly domain will advance.

In the early stages of most academic domains, researchers rely on qualitative data. If a phenomenon is not well understood, qualitative research is the recommended method (Miles and Huberman 1994). The qualitative methodologies are useful for providing a focused and deep understanding of reality, as well as for asking *why* and *how* questions. This was indeed true, as many of the early studies in family business were conducted by practicing consultants, who reported on successful tactics or presented significant problematic issues, often in the form of a published report or case study. As the knowledge base has increased and the domain has matured, the reliance on qualitative data has begun to shift to quantitative data and to quantitative tests of qualitatively described relations (Bernard 2006). We are now at this intersection of many of the topics in family business.

12.6 Call for Specific Research on Family Councils

Because scholarly study of the specific topic of family councils is nonexistent, we are issuing a call for researchers to conduct thorough, high quality, well-designed research studies. It is certainly not our intent to delve into the qualitative vs. quantitative debate. Instead, we are asking for completion of in-depth exploratory and descriptive qualitative research that can stand on its own through the most withering questioning by quantitative researchers. We call for research to be academic in nature, utilizing proper research methodologies, in order to find answers to specific and well-written research questions. As an example, researchers could conduct an ethnographic study in the grand tradition of social anthropological research. We call for the proposal of hypotheses and the creation of theory to be submitted for evaluation and

testing by quantitative methodologies. Grounded theory is especially useful at creating hypotheses for future study. It is the view of the researchers that what is critically necessary is not only better exploratory and descriptive research, but good, old-fashioned empirical research in the form of hypothesis testing and validation. Through such procedures, we will have research that is reliable and generalizable, and results will be infinitely more useful to family businesses and the professionals who consult them. Family business researchers have a responsibility and a duty to provide worthwhile data: "Researchers must continue to make efforts to communicate research findings in a manner conducive to practitioners" (Sharma 2004, p. 26)

12.6.1 Population

The majority of literature on family councils is either anecdotal from the point of view of the family business owner, or is written from the view of a family business consultant who has recommended and initiated a family council for a client. Family business researchers need to perform research on *all* of the associated populations, such as owners, consultants, professionals, and family business scholars to develop a well-rounded view. How many of the players – consultants, owners, and family business professionals see the reason for or understand the benefits and purpose of a family council? We need to understand how each respondent defines a council, and we must record the differences for each respondent.

12.6.2 Suggested Research Questions

- What effect does the initiation of a family council have on firm performance, on family communication, on conflict, and on succession?
- What is the shared understanding of family councils? What factors exist?
- How do families manage the boundaries between family and business?
- What are the parameters for next generation members?
- What is the process for *communicating* the family's strategic vision? How is the process communicated most effectively?
- What techniques and processes allow the council to succeed?
- What is the importance of the role of facilitator? What skills are needed to facilitate effectively? Can a family member facilitate, or is it best to use an outside facilitator?
- What is the difference in council effectiveness based on the life cycle stage of the family firm?
- What do owner/managers know or understand about a family council?
- What is the level of awareness of family councils among family businesses and family members?
- What does a controlling owner believe or "feel" about a family council? Do they see it as a threat to their leadership? What can be done to alleviate the perceived threat?

- What is the conflict resolution role of the family council? Has the council been effective in preventing or reducing interpersonal negative conflict? If so, how does the council reduce conflict?
- What are the best practices for the creation and management of a council? Do these best practices vary by respondent or by specific generation? How do the practices vary?
- If a council does not exist, what are the possible substitutions that may fill the role of a family council? How are the substitutions implemented? How do they work?
- Significant learning takes place by studying failure as well as successes. We should have an understanding of what leads to council ineffectiveness. What do we understand about the causes of council failure? How can we minimize council failure?

The Appendix shows a sample survey instrument used by the authors in performing ongoing research on family councils. It has been administered to three groups of respondents: family business owners, family business consultants, and family business researchers. The instrument will collect both quantitative and qualitative data and is currently in use in a grounded theory research study. Preliminary data shows a misalignment between what academics think of a family council and what consultants think of a family council. The data have also identified the role of the professional facilitator as important in the success of the family council, and the need seems to exist for a period of at least 2–3 years (Bianchi and Alderson ongoing).

12.7 Discussion and Conclusions

We have focused attention on the lack of research in an important area within family business for the family, as well as for the business. We have discussed the lack of agreement and general understanding as to the term "family council," and as a first step, have provided our working definition of family council. We ask you to accept our invitation to offer changes, suggestions, improvements, and contrasting views. Our main purpose in writing this chapter was to initiate a call for research on family councils and to emphasize the importance of providing thorough, high-quality research in order to propel our scholarly domain further ahead. If family business consultants are recommending the creation of family councils to their clients, as a tool for governance and for increasing business effectiveness, academicians and researchers should provide the applicable and practical research to benefit families in business. We need to keep our end goal in mind when proposing research, and remember the ultimate user of our research: the family business owner who wonders, "How can I make my business more effective, productive, and profitable?"

A case study example of a successful family council by Thomas B. See is available on the Family Firm Institute website. The article discusses mission, vision, and value statements; conflict resolution; stock transactions; divorce; death; business continuance; and how the family should select an adviser. The case study identifies questions for families and consultants to ask (See 2001).

Appendix

Questionnaire

1. Are you aware of the concept of a family council?
2. Do you have a family council?
3. If not, why not?
4. Would you consider having a family council?
5. Why?
6. Who would be a part of your family council?
7. If yes, when was it started?
8. Has your family council been effective?
9. Can you describe its effectiveness?
10. How often does your family council meet per annum?
11. How structured are the meetings (e.g., agenda)?
12. Who runs the meetings?
13. Who calls a family council meeting?
14. Who attends these family council meetings (spouses, in-laws)?
15. Are there rules to the meeting?
16. Do you have a facilitator? If so, is it a family member or nonfamily member?
17. What decisions if any does the family council make?
18. Is there a representative of the family council on your Board of Directors?
19. Do you have a Board of Directors?
20. Do you have a Family Creed/Constitution?
21. If so, do you adhere to it in the true sense of the word?
22. Is there any incentive for being on the family council?
23. To what degree is there a sense of stewardship among family members?
24. Is the family council an "Open Platform" for all family members to have a voice?
25. Describe the culture of the family (open, casual, rigid, top down, secretive, respect of nonfamily members).
26. Does everyone treat each member with respect and common decency?
27. Does each family member have the right to make an independent decision?
28. If so, how enforceable is an independent decision?
29. Does it go to vote?
30. What can you recommend to other families regarding the creation of a family council?

SWOT Analysis

Strengths: What is working? What does the council do well?
Weaknesses: What is not working? What does the council do that needs improving?

Opportunities: Concerning opportunities, is there anything the family council should be doing? Are there any opportunities the business should exploit to strengthen the family council?

Threats: Is there anything that threatens the effectiveness of the family council? Could you tell us about that?

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Chapter 13
Transferring Strategy Research to the Family Firm Context: A Fit Perspective on Performance in Family Firms

Corinna M. Lindow

13.1 Three Family Firms: Illustrative Real Case Examples

Consider the following three illustrative real cases, to which this chapter will refer recurrently. First, *family firm A* is Europe's largest and market-leading shoe retailer. The firm was founded in 1913 in Germany and is today present in 20 countries. It has one core business and is 100% family-owned, -managed, and -supervised. The firm has a centralized organizational structure. Second, *family firm B* is one of the largest players in the German food industry. Founded in 1891 by a pharmacist, the company developed a leading market position in food manufacturing with a wide product range. Aside from the core business, the firm also moved into other selected businesses, including wine, spirits, and beer. Moreover, the firm expanded its operations into banking, shipping, and the hotel business. Family firm B is 100% family-owned, but partially family-managed and -supervised. The firm practices a combination of centralized control and decentralized management. Third, *family firm C* has grown from grocery trading into an international group over the years and operates strictly in growth-oriented markets. Its areas of operation include wholesale, pharmacies, raw materials, personal hygiene, and more. Family firm C was founded in 1756 and today is owned by more than 500 members of the family. There is a clear separation of family and business. The firm is 100% family-owned, but 0% family-managed and partially family-supervised. The group is composed of five autonomously run divisions. It has a decentralized organizational structure.

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13.2 Introduction

Family firms such as those illustrated above are considered to be unique organizational forms because the family influences the business (Sharma 2004). Research on family firms has begun recognizing this specialized type of firm, and such research emerged under the assumption that the family influence makes family firms different from other types of firms. Researchers are primarily concerned with identifying such differences of family firms and clarifying how these differences affect firm performance (Chrisman et al. 2003). Consequently, research on the performance of family firms has become an increasingly central area of investigation among researchers (Sciascia and Mazzola 2008). There are over 50 narrowly focused family firm performance studies and over 100 broadly focused studies (Jaskiewicz and Klein 2005; Klein 2008). These studies relate various aspects of family influence to family firm performance, including family ownership, management, and supervision. The results, however, are inconclusive, as these studies show "positive, negative, and null associations" (Sciascia and Mazzola 2008: 331). Several researchers have highlighted two deficiencies that future family firm performance research should overcome. These include, on the one hand, the largely neglected fact that family firms are heterogeneous entities. As the case examples illustrate, the overall degree of family influence via ownership, management, and supervision varies among family firms. That is, the degree of family influence in *family firm A* is arguably different from that in *family firm B* and *family firm C*. On the other hand, extant research has largely neglected the indirect effects of family influence on firm performance. However, research that considers only the direct relationships between family influence and firm performance neglects potentially moderating or mediating effects. Scholars have described strategic management specifically as a potentially important but thus far neglected intermediate factor. As the case examples illustrate, family firms clearly differ in both strategic choices and implementation, with *family firm A* following a somewhat focused strategy with centralized decision making, *family firm B* following a somewhat hybrid strategy between focus and growth with a mixture of centralized and decentralized decision making, and *family firm C* following a somewhat growth-oriented strategy with decentralized decision making. Overall, treating family firms as homogenous entities and neglecting the potential indirect effects of family influence might cause researchers to overlook the plausible fact that strategic behavior differs with the degree of family influence, which, in turn, affects firm performance.

The purpose of this chapter is to suggest a new perspective on family firm performance that incorporates the idea of distinguishing among family firms and considering the indirect effects of family influence on firm performance. I believe that the introduction of strategy research – as expressed in the concept of fit – into family firm research will help to advance our understanding of the drivers behind the performance of family firms and will address the aforementioned deficiencies. Thus, the main contribution of this chapter is to identify the concept of fit embedded in strategy research as a neglected topic in family firm performance research. I will elaborate on the proposition that family influence affects strategic fit behavior and,

in turn, firm performance. I will make a further contribution by proposing promising paths for future family firm performance research considering the concept of fit.

This chapter is organized as follows. First, I briefly review the inconclusive state of the extant research on family firm performance and contrast the latest scholarly opinions regarding two deficiencies that may underlie the conflicting results of this research. Next, I outline the idea of fit in strategy research, beginning with an elaboration of basic contingency and configuration theory to set the stage for how the concept of fit can support our understanding of family firm performance. In this process, I refer to the findings of a recent study, which, for the first time, examined the occurrence and effect of a strategy-structure fit on firm performance in a family firm sample. The final two sections contain reflections on future research and conclusions, respectively.

13.3 The State of Extant Performance Research on Family Firms

13.3.1 Conflicting Findings of the Extant Performance Research on Family Firms

Numerous studies have investigated the impact of family influence on firm performance (cf., Jaskiewicz 2006; Astrachan and Zellweger 2008). These studies have employed different theoretical approaches, the most common of which are agency theory (e.g., Jensen and Meckling 1976), stewardship theory (e.g., Davis et al. 1997), and the resource-based view (e.g., Barney 1991; Habbershon and Williams 1999). Indeed, each of these perspectives emphasizes certain key reasons why family influence may be beneficial or detrimental to firm performance, and research has built on these perspectives to address many different aspects of family influences and their relationships to firm performance. The examined predictors of family firm performance primarily include family ownership (e.g., Górriz and Fumás 1996; Anderson and Reeb 2003a; Yammeesri and Lodh 2004) and family management (e.g., Westhead and Howorth 2006; Sciascia and Mazzola 2008). Moreover, some newer studies have considered distinct family resources in relation to firm performance (e.g., Rutherford and Kuratko 2008; Chrisman et al. 2009); only occasionally have studies considered family leadership (Sorenson 2000), entrepreneurial orientation (Naldi et al. 2007), or family identity (Craig et al. 2008; Barnett et al. 2009). However, taken as a whole, the results do not present an unambiguous picture. Rather, the results are consistently described as lacking "consensus" (Westhead and Howorth 2006: 301) and as being "divided" (Lee 2004: 48), "contradictory" (Dyer 2006: 253), "mixed" (Pérez-González 2006: 1562; Martinez et al. 2007: 84), "conflicting" (Sciascia and Mazzola 2008: 331), "ambiguous," or "equivocal" (Astrachan and Zellweger 2008: 2, 20).

As indicated in Table 13.1, presenting a selection of performance studies that narrowly focus on family firms, results in fact indicate positive, negative, and null

Table 13.1 Snapshot of selected family firm performance studies

References	Country (sample)	Theory	Comparison	Definition	Predictor(s)[a]	Main result(s)
Daily and Dollinger (1992)	USA (104)	AT	F/N	B	FIO/FIM	No differences in growth and perceived performance
Górriz and Fumás (1996)	Spain (81)	AT	F/N	B	FIO	No differences in profitability, yet higher efficiency
Westhead and Cowling (1997)	UK (146)	N/A	F/N	B	FIO	No difference in size, growth, and performance index
McConaughy et al. (2001)	USA (219)	AT	F/N	B	FIO/FIM	FFs are more valuable and efficient
Mishra et al. (2001)	Norway (120)	AT	F/N	B	FIO/FIM	FFs are more valuable
Anderson and Reeb (2003a)	USA (403)	AT/ST	F/N	B	FIO/FIM	FFs are more efficient and valuable
Ehrhardt and Nowak (2003)	Germany (105)	AT	F/F	B*	FIO	FFs are less valuable for high FIO
Randøy and Goel (2003)	Norway (68)	AT	F/F	B	FIO/FIM	FFs are more profitable and valuable, depending on founder FIM
Chrisman et al. (2004)	USA (1,141)	AT	F/N	B	FIO/FIM	No difference in growth
Lee (2004)	USA (63)	AT	F/N	B	FIO/FIM	FFs are more profitable and efficient
Yammeesri and Lodh (2004)	Thailand (240)	AT	F/N	B	FIO	FFs are more profitable/valuable depending on type and level of family ownership
Jaskiewicz et al. (2005)	Germany/Spain (116)	AT	F/N	B*	FIO/F-Power	No difference for bivariate definition/low F-Power; superior for high F-Power
Kotey (2005)	Australia (981)	N/A	F/N	B	FIO/FIM	Differences among small, medium, and large FFs in profitability and growth
Maury (2006)	Europe (1,672)	AT	F/N	B	FIO/FIM	FFs more valuable and efficient
Lee (2006)	USA (403)	AT	F/N	B	FIO/FIM	FFs higher growth and more profitable

Villalonga and Amit (2006)	USA (508)	AT	F/N	B	FIO/FIM	FFs more valuable depending on form of ownership and management
Westhead and Howorth (2006)	UK (240)	AT/ST	F/F	B	FIO/FIM	No performance differences
Barontini and Caprio (2006)	Europe (ø 640)	AT	F/N	B	FIO/FIM	FFs are more valuable and efficient, driven by FIM
Martinez et al. (2007)	Chile (175)	AT	F/N	B*	FIO/FIM/FIS	FFs are more profitable and valuable
Sraer and Thesmar (2007)	France (420)	AT	F/N	B	FIM	FFs more efficient and valuable
Allouche et al. (2008)	Japan (312, 174)	AT	F/N	B*	FIO/FIM	FFs more efficient, depending on strength of FIO/FIM
Rutherford and Kuratko (2008)	USA (831)	RBV	F/F	C	F-PEC scales	Mixed results depending on the dimension of family influence
Sciascia and Mazzola (2008)	Italy (620)	AT/ST	F/F	C	FIO/FIM	No effect of FIO but higher perceived performance for low and high FIM levels
Chrisman et al. (2009)	USA (505)	RBV	F/N	B	FIO/FIM†	Positive, negative, and no moderating effects of FIO/FIM
Arosa et al. (2010)	Spain (586)	AT	F/N	B	FIO/FIM†	No direct effect of FIO but nonlinear moderating effect of FIM on profitability
Kellermanns et al. (2010)	USA (70)	AT/ST	F/F	C	FIO/FIM	FIO negatively and FIM positively impacts perceived performance

Theory: *AT* agency theory; *ST* stewardship theory; *RBV* resource-based view; *N/A* not applicable. Comparison: *F/N* family vs. nonfamily firms; *F/F* family vs. family firms. Definition: *B* bivariate ("Bivariate" refers to those definitions using a single cut-off point/criterion); *B** bivariate, multiple categories; *C* continuous. Predictor: *FIO* family influence in ownership; *FIM* family influence in management; *FIS* family influence in supervision; *F-Power* family power; *F-PEC* family power, experience, culture. †Moderator variable. Main results: *FFs* family firms; terminology for performance dimensions analog to Murphy et al. (1996: 17)

[a]The term "predictor" refers to both causal and grouping variables

associations. Upon a closer inspection of these studies, there appear to be two possible reasons for the divergent conclusions. First, the primary comparison of family vs. nonfamily firms using bivariate definitions of family firms might account for the contradictory findings. To illustrate, Westhead and Cowling (1997), for example, tested the relationship between family ownership and firm performance by comparing 146 UK-based family vs. nonfamily firms. To split both organizational types, the authors employed a single cut-off point, i.e., a firm was treated as a family firm if a single family held more than 50% of the voting shares and perceiving itself as a family firm. Doing so, however, infers homogeneity among all of the firms being subsumed under the single family firm grouping and does not account for potential differences among these firms. Second, the prime consideration of the direct associations of family influence with firm performance, as shown in Table 13.1, may have given rise to conflicting findings. Recently, both methodological problems have been identified as two important deficiencies by several researchers, as the following section shall demonstrate.

13.4 Two Deficiencies of Extant Performance Research on Family Firms

13.4.1 Neglect of Heterogeneity: Need to Distinguish Among Family Firms

In the previous family firm performance research, a family vs. nonfamily methodology was primarily employed, defining family firms in bivariate terms, i.e., treating them homogeneously (Table 13.1). However, firms are unlikely to be simply one or the other. They are rather heterogeneous. As Klein et al. (2005) propose, family firms differ on a range of dimensions, and as Naldi et al. (2007) note, it is possible that different types of family firms exhibit different patterns of firm behavior. This seems to be true, with research having indicated a multitude of family structures and characteristics that influence the firm (e.g., Gersick et al. 1997; Westhead and Cowling 1998; Kellermanns 2005; Klein et al. 2005; Sharma and Manikutty 2005). In fact, Villalonga and Amit (2006) and Miller et al. (2007) found that the effect of family influence on firm performance was fundamentally dependent on how the family firms were defined. Thus, performance differences may arise among family firms, potentially explaining the unequivocal findings of previous studies.

The idea of heterogeneity stems from the family firm being modeled by family systems theorists (e.g., Lansberg 1983; Swartz 1989) as two overlapping systems: the family and the business that influence each other (e.g., Hollander and Elman 1988). For different family firms, the level of overlap between the boundaries of these two systems arguably varies. As a result of the varying overlap, the degree of family influence is assumed to vary correspondingly. Therefore, scholars increasingly perceive family firms as a heterogeneous population (e.g., Gudmundson et al. 1999; Chrisman et al. 2003; Corbetta and Salvato 2004a; Salvato 2004; Sharma 2004;

Naldi et al. 2007), which seems to be correct when one considers the three truly diverse family firm case examples introduced at the beginning of this chapter.

Especially with regard to firm performance, the heterogeneity view has gained traction, assuming that the performance of firms with high degrees of family influence differ considerably from those firms with low degrees family influence (Pieper 2003; Rutherford and Kuratko 2008). Recently, proponents of the heterogeneity view have highlighted the need for prospective research to distinguish among family firms (e.g., Sharma et al. 1997) or different types of family firms (e.g., Naldi et al. 2007; Chrisman et al. 2009) rather than comparing family to nonfamily firms. Specifically, Barnett et al. (2009) emphasized that, despite the tendency of researchers to distinguish between family and nonfamily firms, there is an urgent need for future research to distinguish among family firms. Moreover, several scholars, including Sharma and Manikutty (2005) and Chrisman et al. (2007), have called for a more fine-grained distinction between different types of family firms, arguing that the bivariate characterization of firms in extant studies is too simplistic and therefore problematic (Chrisman et al. 2009).

Furthermore, Carsrud (2006: 859) emphasized that, "[f]amily business literature is laced with the dichotomies of family-owned versus nonfamily-owned firm[s]" and alarmed that "[r]eality is different." Finally, Klein (2008) encouraged prospective research on the performance of family firms to consider the heterogeneity of family firms.

Overall, the heterogeneity of family firms potentially causing performance differences is a current deficit and should be considered in future research. But, how should family firms be compared to each other? Astrachan et al. (2002) suggested the consideration of continuous measurements of family influence rather than the artificial bivariate classification of family and nonfamily firms. According to the authors, "the relevant issue is not whether a business is family or non-family, but the extent and manner of family involvement in and [its] influence on the enterprise" (p. 47). As recent studies (e.g., Rutherford and Kuratko 2008; Kellermanns et al. 2010) employing continuous measurements of family influence show, there are in fact performance differences among family firms. These studies seem to attest to the necessity of a heterogeneity view in family firm research.

13.4.2 Neglect of Indirectness: Need to Consider Strategic Management as an Intermediary

Previous research on family firm performance has also mainly considered the direct influence of the family on firm performance, mostly considering family ownership and family management (Table 13.1). However, recent arguments favor the idea that the family influences performance indirectly. Specifically, supporters of such indirect relationships emphasize that strategic management is important, but has thus far been a neglected intermediate factor between family influence and firm performance.

Some of the arguments refer to the study by Rutherford and Kuratko (2008), who found that the relationship between family influence and firm performance might be

largely indirect. The authors claimed that increased attention is needed on how family involvement is used to influence the strategic management of a firm. Chrisman et al. (2008) concluded from Rutherford and Kuratko findings that the inconclusive results of previous performance studies may relate to the indirectness and complexity of the relationship between family influence and firm performance. The authors reasoned that the family seems able to use its involvement in a firm to influence its strategic performance, and thus the relationship between family involvement and firm performance is likely to be indirect.

In the same vein, Sirmon et al. (2008) postulated that an indirect rather than a direct effect of family influence on firm performance is present and claimed that prospective researchers should worry more about such indirect effects. According to the authors, it seems that family influence, in some instances, is a moderator in the relationship between strategy and performance. Also highlighting the rather indirect influence of family influence on performance, Sharma et al. (2008) argue that the indecisive results of family firm performance studies may relate to the so-far unexplored strategic management of family firms. Along with other scholars (e.g., Cliff and Jennings 2005; Klein and Bell 2007), Sharma et al. proposed the consideration of family influence as an independent moderating or mediating variable to be taken into account.

Overall, strategic management as an intermediary has been emphasized as a potential cause for performance differences among family firms. In fact, several recent studies substantiate this claim. Miller et al. (2010) demonstrated that ownership alone is not a sufficient predictor for performance, but that the type of owner and the owner's strategic priorities play a vital role. Specifically, they found that, in firms where the lone founder was the largest owner or CEO, and a strategy of growth was pursued, above-average shareholder returns were achieved. On the contrary, in firms where family members were the largest shareholders or where a family member served as the CEO, and a conservation strategy (less apt to pursue growth strategies) was practiced, only average returns were achieved for the shareholders. However, if the founder was still present in those firms and a strategy between growth and conservation was pursued, again, above-average performance was achieved. As another promising finding, building on Astrachan and Kolenko (1994), Tsao et al. (2009) demonstrated that strategic human resource management in Taiwanese family firms significantly moderates the influences of family ownership on firm performance, whereas direct relationships between family ownership and firm performance were not significant. Moreover, Craig et al. (2008), testing for competitive orientation mediating the relationship between family-based brand identity and firm performance, found further support for the indirectness of family influence.

13.5 A Fit Perspective on Performance in Family Firms

Much confusion exists in family firm performance research. As previously noted, this may be attributable to very different types of family firms largely being considered in the same manner. The failure to consider different family business types when

approaching performance issues is a deficit in the eyes of several scholars. Furthermore, the failure to address indirect relationships between family influence and firm performance is viewed critically, especially because strategic management seems to be an important intermediate factor that needs consideration. Therefore, I propose a new perspective on family firm performance, specifically, the application of the concept of fit, which is central to strategic management research (Venkatraman and Camillus 1984; Venkatraman 1989). Inherent in the notion of fit is the idea that organizations are more efficient when they achieve fit relative to when a lack of fit exists (Venkatraman 1989). Thus, fit is considered as an important driver of performance.

I believe that the concept of fit is an underresearched but worthwhile concept in family firm research, which may contribute to the explanation of performance differences among family firms. First, and in regard to the presented heterogeneity of family firms, the strategic management domain has successfully used the concept of fit to explain performance differences among firms (Van de Ven and Drazin 1985). Second, and with regard to indirect performance effects, strategic management in the family firm is said to occur in the nexus of family and business systems (Hoy and Verser 1994). As a result, family dynamics likely affect strategic choices and processes in a way that is different among various family firms (Cromie et al. 1995) and to nonfamily firms (e.g., Chrisman et al. 2005). Taken together, with family influence varying for different family firms, there is reason to believe that strategic fit behavior also differs, which may lead to variances in family firm performance.

In fact, the general idea of fit has been introduced to family firm research before. That is, Sharma (2003) outlined fit constellations for family firm types and governance mechanisms. Corbetta and Salvato (2004b) considered fit with respect to family firm boards. Salvato (2004) employed the idea while examining family firm entrepreneurship behaviors. Also, Casillas et al. (2010) introduced the idea to the relationship between entrepreneurial orientation and performance. Furthermore, the application of mainstream strategic management concepts, such as the concept of fit, to the field of family firms has been well recommended by leading scholars (e.g., Sharma et al. 1997; Chrisman et al. 2003; Zahra and Sharma 2004).

In the following, to illustrate the idea of a fit perspective in family firm performance research, the focus will be specifically placed on the fit between strategy and organizational structure (also termed “strategic fit”) as being a determinant of superior firm performance. This focus was chosen because the topic of strategy and structure has been commonly overlooked in the previous family firm research (cf., Debicki et al. 2009), despite the fact that its importance has been persistently highlighted in the strategic management research. Moreover, not only recently have scholars, such as Brunninge et al. (2007) or Chrisman et al. (2008), drawn attention to the fact that family firms seem to differ in the manner in which strategy is formulated and implemented. Furthermore, scholars, such as Sharma et al. (1996: 30) and Sharma et al. (1997: 16), have been especially concerned about whether the implementation of strategy is related to performance, when asking “Which organizational structure is likely to be most effective for family businesses?” and “what kind of organization[al] structures, systems, and processes are likely to be most effective for family businesses, and whether these differ according to the situation,” respectively.

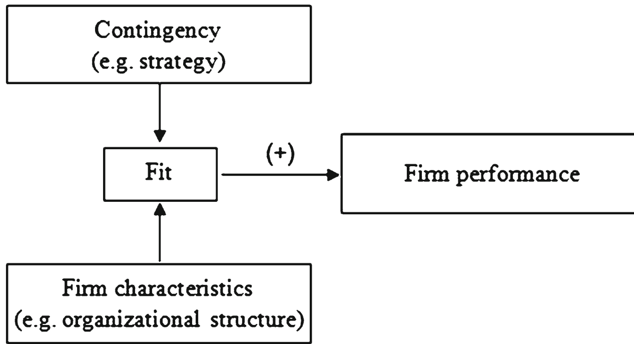

Fig. 13.1 The classic contingency model. *Source*: Adapted from Donaldson (1987: 3) (please note that the model specification is dependent on the research context, see Venkatraman 1989)

13.5.1 The Concept of Fit in Strategic Management Research

13.5.1.1 Contingency and Configuration Theory

The concept of fit is based on contingency theory, which has dominated research on strategic management and performance (Van de Ven and Drazin 1985). Essentially, contingency theory proposes that organizational effectiveness results from fitting firm characteristics to contingencies that reflect the situation of the organization (Donaldson 2001). Thus, an organizational outcome is the consequence of a fit or match between two or more factors, and there is no one best way to manage an organization; the best way depends on the actual situation, i.e., the contingency factors (Galbraith and Nathanson 1979).

Strategic management scholars have examined a wide range of contingency factors, external as well as internal in nature, and have explored how they interact with firm characteristics to determine firm performance. The contingency factors examined include, for example, the environment (e.g., Burns and Stalker 1961), technology (e.g., Hickson et al. 1969), organizational size (e.g., Child 1975), or strategy (e.g., Chandler 1962; Grinyer et al. 1980; Amburgey and Dacin 1994). The firm characteristics examined include, for example, organizational structure (e.g., Burns and Stalker 1961), management practices (e.g., Youndt et al. 1996), or managerial skills (Gupta and Govindarajan 1984).

One particular area of focus in contingency literature centers on fit relationships between strategy and organizational structure (e.g., Chandler 1962; Rumelt 1974). Accordingly, a trivariate relationship between strategy, structure, and performance is assumed (Burton and Obel 2004), in which there is no single organizational structure that is highly effective for all organizations; rather, the optimal structure is dependent upon the strategy pursued. The key proposition is that the fit of the strategy with organizational structure positively affects firm performance (Fig. 13.1).

Accordingly, to achieve superior performance, firms have to change their organizational structures to fit to the strategy[1] (Pennings 1998).

In terms of operationalizing contingency theory, configurations have played a major role (Ketchen et al. 1993). Configuration theory posits that, for each set of strategic characteristics, there exists a set of firm characteristics that yield superior performance (Van de Ven and Drazin 1985). Hence, a configuration denotes a multidimensional constellation of contingency and firm characteristics (Meyer et al. 1993). Being so, it takes the concept of fit a step further by identifying multiple combinations of fit that can be equally effective ("equifinality") (Van de Ven and Drazin 1985: 515). Given the multidimensional nature of strategy, the configurational approach has been described as being especially relevant to the study of strategic management (Ketchen et al. 1993). In that respect, overall firm performance is less dependent on a specific strategy than on how well the organizational structure is chosen to fit this strategy.

13.5.1.2 Using Configurations to Model Fit

Multiple ways of framing and testing fit concepts have emerged. Venkatraman (1989) identified six perspectives of fit: fit as moderation, mediation, matching, covariation, profile deviation (typologies), and gestalts (taxonomies). Each perspective proposes different relationships between the variables of interest, and hence, different model specifications.

When researchers hypothesize that the effect of a given construct on performance is contingent on a third variable, they commonly adopt a moderation or mediation perspective. The basic notion of the moderation perspective is that there is no universally superior strategy, but that the impact of the predictor variable (e.g., strategy) on performance is dependent on the level of a third variable (e.g., structure). This perspective is conceptualized as the interaction between two variables. The mediation perspective posits the existence of an intervening factor between antecedent (e.g., strategy) and performance. It adopts a conceptualization based on intervention.

When a theory is described in terms of multidimensional constellations, linear models of moderation and mediation, however, are not suitable, as only a limited number of variables can be analyzed. In response to the limitations of linear models, configuration models were developed (Venkatraman 1989). Configuration models can be broken down into typologies and taxonomies. The basic difference is that a typology is conceptual, while a taxonomy is empirical (Meyer et al. 1993).

Typologies refer to multiple theoretically derived ideal types, "each of which represents a unique combination of the organizational attributes that are believed to

[1] For further discussion of structural adjustments to regain fit, see Donaldson (1987). For a discussion of arguments in favor for the structure-follows-strategy versus the strategy-follows-structure approach, see Burton and Obel (2004).

determine the relevant outcome(s)" (Doty and Glick 1994: 232). Thus, fit is seen as a pattern of internal consistency among variables. Here, organizations are first (a priori) conceptualized along at least two dimensions and are then tested for relative performance. Thus, it is possible that no existing organization will perfectly match a proposed ideal type, but adherence to the ideal profile is expected to be associated with higher performance, whereas deviation from the ideal profile implies poor performance (Venkatraman 1989; Venkatraman and Prescott 1990). The degree of adherence to the ideal profile is obtained by calculating the Euclidean distance. Conceptual typologies include, e.g., Miles and Snow (1978), who identified three recurring ideal types. Accordingly, if firms resemble the defender, analyzer, or prospector type, they appear to be more effective. Furthermore, Mintzberg (1979) identified five types of organizational structures that are maximally effective: simple structure, machine bureaucracy, professional bureaucracy, divisionalized form, and adhocracy. As another typology that reflects important combinations of strategy and structure, Miller (1983) identified simple, planning, and organic firms. Moreover, Porter (1980) identified three ideal-type strategies that are highly effective: overall cost leadership, differentiation, and focus.

Unlike typologies, taxonomies do not define "ideal" types. Those empirically derived (a posteriori) configurations, rather, attempt to classify organizations into mutually exclusive and exhaustive groups (Doty and Glick 1994) based on their measured similarity of observed variables. Thus, fit is seen as a pattern of internal congruence, and numerical taxonomic methods, such as cluster analysis and factor analysis, are statistical techniques for developing the strategic groups. Empirical taxonomies include, e.g., Miller and Friesen's (1978), five successful archetypes: adaptive firms, dominant firms, giants under fire, entrepreneurial conglomerates, and innovator firms. As another example, Miller and Roth (1994) revealed three main manufacturing strategic groups: caretakers, marketeers, and innovators.

13.5.1.3 Excursus: Strategy-Structure Typology by Miles and Snow

Fundamentally, Miles and Snow (1978) deduced three ideal strategic types[2] that are equally highly effective: the defender, the analyzer, and the prospector. As presented in Fig. 13.2, the defender and prospector occupy opposite ends of a continuum of strategies (Miles and Snow 1978; Shortell and Zajac 1990), with the analyzer situated in the middle. The three ideal strategic types are characterized as follows:

- *Defenders* are firms that have narrow product-market domains. Top managers in this type of firm are experts in their firm's limited area of operation, but do not tend to search outside of their domains for new opportunities. As a result of this narrow focus, these firms seldom need to make major adjustments in their

[2] A fourth strategic type is called "reactor." However, as this type is not viewed in the original Miles and Snow (1978) formulation as a viable or ideal strategy, it is not included in the following discussion.

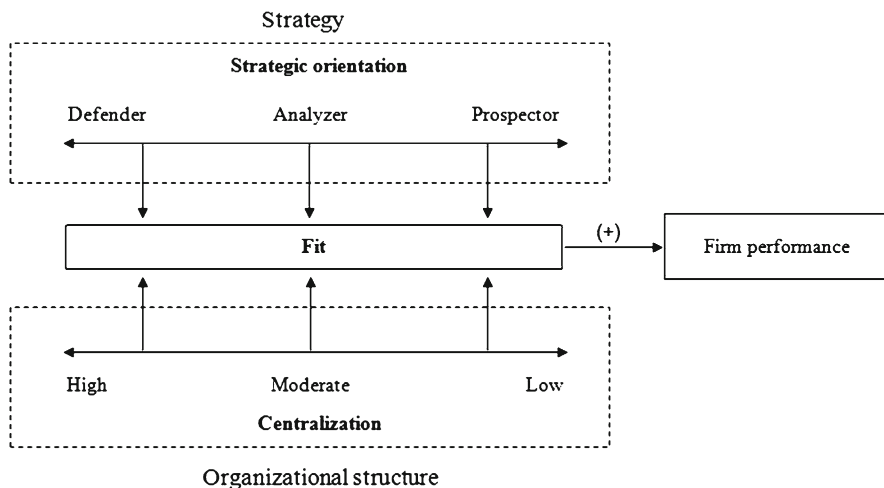

Fig. 13.2 The ideal strategy-structure fit profiles by Miles and Snow (1978). *Source*: Own illustration

technology, structure, or methods of operation. Instead, they devote primary attention to improving the efficiency of their existing operations. Thus, this strategic type requires a highly centralized organizational structure to be highly effective.

- *Analyzers* are firms that operate in two types of product-market domains, one relatively stable, the other changing. In their stable areas, these firms operate routinely and efficiently through the use of formalized structures and processes. In their more turbulent areas, top managers watch their competitors closely for new ideas and then rapidly adopt the ideas that appear to be the most promising. Operating in such a highly equivocal environment, this strategic type requires a moderately centralized organizational structure that permits a necessary degree of flexibility.
- *Prospectors* are firms that almost continually search for market opportunities, and they regularly experiment with potential responses to emerging environmental trends. Thus, these firms often are the creators of change and uncertainty, to which their competitors must respond. Owing to their commitment for product and market innovation as well as a high demand for information processing, this type requires a decentralized structure to remain adaptable and responsive.

Referring to the three case examples given at the beginning of this chapter, each of those family firms was chosen to illustrate one ideal type proposed by Miles and Snow (1978). Consider again *family firm A*, which pursues a defender-like strategy and is characterized by a centralized structure in which decision-making authority is concentrated at the top of the hierarchy; consider also *family firm B*, which pursues an analyzer-like strategy, in which decision-making powers are delegated, to some degree, to lower-level managers of the hierarchy; and finally, assess *family*

firm C, which pursues a prospector-like strategy and fully delegates decision-making authority to lower-level managers of the firm hierarchy. Consider also that the family's influence in firms A, B, and C was found to be very heterogeneous.

According to Miles and Snow (1978), each of the three types specifies an ideal combination of strategy and organizational structure that produces optimal performance levels. This implies that deviations from any of these ideal states, i.e., misfits, must result in lower firm performance. As different family firms are expected to differ in the family's influence on the firm and in strategic decisions (heterogeneity), and because strategy-structure fit is useful in explaining firm performance (indirectness), the fit model by Miles and Snow (1978) seems well suited to examine performance differences among family firms

13.6 A Transferring the Concept of Fit to the Family Firms Context: A First Attempt

The concept of fit, because it proposes that strategy and structure are complementary and consequential for performance, provides an opportunity to delineate more fully the performance of family firms. One recent study that has made a first attempt at introducing the concept of fit to the family firm performance research is the study of Lindow et al. (2010). Using the strategic typology of Miles and Snow (1978) as a guiding framework, the authors examined the likely impact of family influence on strategy and organizational structure and proposed consequences for the achievement of fit as well as for the fit-performance relationship (Fig. 13.3). Adopting a heterogeneity view to 171 German family firms by defining them continuously using the F-PEC scale (Astrachan et al. 2002), the study addressed one deficit that has been often criticized in the prior family firm research. Moreover, in examining the relationships among family influence, strategy-structure fit, and performance, the authors addressed the indirect effects of family influence on performance, which were identified as another deficit in the previous family firm research.

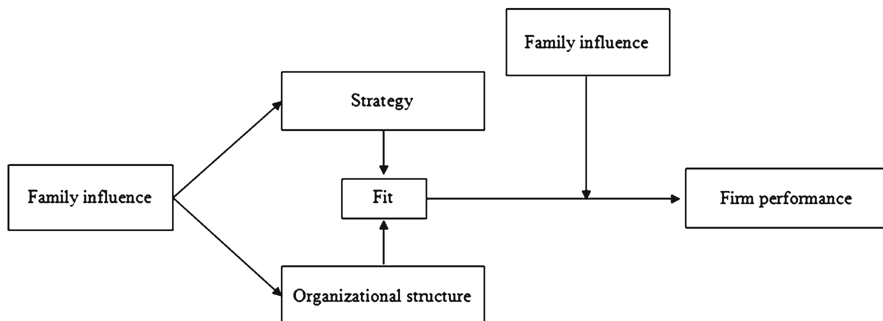

Fig. 13.3 The strategy-structure fit model in family firm context. *Source*: Lindow et al. (2010: 170)

With the traditional model by Miles and Snow (1978) being transferred to the family firm context, Lindow et al. (2010) expected several differences. First, they argued that varying degrees of family influence should affect business strategy and organizational structure. Furthermore, the authors expected strategy-structure misfits, i.e., deviations from ideal profiles, to be increasingly present for family firms pursuing analyzer and prospector strategies, in that order. The authors further suggested that adherence to the ideal strategy-structure fit types creates performance advantages for family firms, and that family influence would even moderate the fit-performance relationship.

The authors obtained interesting findings. Specifically, family influence in ownership, management, and supervision was found to relate significantly with higher centralized organizational structures, but did not do so with strategy. With the degrees of centralization varying with the family influence for any strategy pursued, the authors found that firms following an *analyzer*, and especially a *prospector* strategy, deviated from the ideal fit constellations far more often than did firms following a *defender* strategy. Moreover, they found that such deviations from the ideal fit profiles decreased the performance of the family firms that were sampled, i.e., the less these firms resembled the ideal types proposed by Miles and Snow (1978), the lower the ROE measurement of performance and perceived accomplishment of family firm objectives for these firms.

Overall, the authors have demonstrated that the concept of fit seems an appropriate tool for explaining performance differences among family firms. Specifically, they showed that the heterogeneity of the family influence induces certain constellations of strategy and structure that do not always result in positive firm performance, thus explaining performance differences among the family firms sampled.

Although the results provide a better understanding of how family firms can create a competitive advantage by aligning strategy and structure, the study by Lindow et al. (2010) by no means provides a definitive treatment of the relationships between family influence, fit, and performance. The study's encouraging findings shall serve to inspire future research.

13.7 Toward Further Study of Fit in Family Firm Performance Research

Applying a fit perspective to family firm performance research is a new path for future research. To advance our understanding of the role of family influence for strategic management and performance in family firms, the study by Lindow et al. (2010) in a first attempt focused on fit with respect to competitive strategy and organizational structure (centralization). However, further empirical support for the fit perspective is needed.

Future research could address other types of strategies and/or firm characteristics. First, in addition to competitive strategy being a business-level strategy, future research might consider corporate-level strategies, such as diversification

or internationalization, as well as functional-level strategies, such as human resource management or marketing. Second, the future efforts of family firm scholars could be directed toward examining the performance implications of a fit between strategy and other forms of firm characteristics, including for example other specifications of organizational structure and firm characteristics of organizational culture (e.g., Scholz 1987), human resource practices (e.g., Delery and Doty 1996), or managerial skills (e.g., Barth 2003).

The field of family firm research has suggested many aspects of how family shapes strategic behavior. For example, several studies have proposed arguments and empirical findings that family influence affects the degree of diversification (Anderson and Reeb 2003b; Jones et al. 2008; Gomez-Mejia et al. 2010) and divisionalization of the firm (Mahoney 1992). According to Chandler (1962), the strategy of diversification requires the adoption of a multidivisional structure; a misfit is proposed to be detrimental to firm performance. It would be interesting to explore the effect of family influence on the relationship between diversification and divisionalization and the consequential performance differences among family firms. It might be that, due to reasons of risk aversion, family influence is related to higher degrees of diversification, whereas, due to aspects of control, family influence is inclined toward a more centralized organizational structure (organization by function vs. organization by division), potentially creating a misfit. In addition to organizational structure, other firm characteristics, such as the firm's culture, may significantly determine the diversification-performance relationship. For instance, a certain mode of diversification may not be universally beneficial to firm performance. That is, diversification via internal development may better fit a strong family firm culture, whereas a diversification via acquisition or merger may better fit a weak family firm culture.

Furthermore, several studies have proposed arguments and empirical findings that family influence affects the degree of internationalization (e.g., Zahra 2003; Fernández and Nieto 2005) and that the success of an international strategy in family firms is dependent on certain factors, such as organizational structure or corporate culture (Gallo and Sveen 1991). Thus, a promising path for future research might be addressing the performance implications of a fit between organizational structure or corporate culture and international strategy. For example, potentially family-induced differences in the degree of coordination, the integration of activities from headquarters, or the degree to which authority is dispersed across countries could explain performance differences among multinational family firms. Moreover, family firm culture may affect the success of the integration of international subsidiaries (Swinth and Vinton 1993). It is plausible that in family firms cultural controls substitute structural controls or that shared values are beneficial in those family firms that require structural integration (e.g., global or transnational strategies).

As another aspect, in the entrepreneurship literature, based on the study by Lumpkin and Dess (1996), numerous works have considered how the relationship between entrepreneurial orientation and performance is contingent on firm characteristics (e.g., Lumpkin and Dess 2001; Wiklund and Shepherd 2005). Family firm

scholars have demonstrated that entrepreneurial behavior (e.g., innovation strategy) in family firms, as compared to nonfamily firms, is importantly driven by aspects such as the cultural or time orientation of the firm (Zahra et al. 2004). Moreover, based on a family firm sample, Casillas et al. (2010) recently confirmed the existence of contingency relationships among entrepreneurial orientation, family involvement, and firm growth. Thus, future research could examine aspects of entrepreneurial orientation and family firm performance from a strategic fit perspective.

Lastly, the performance effect of the interplay between strategy, human resource practices, and performance (Delery and Doty 1996) seems to be another fruitful route of study. Due to aspects such as family firm goals for nepotism or long-term orientation in employment relationships (Tagiuri and Davis 1992), human resource practices in family firms have been described to be importantly influenced by the family (Astrachan and Kolenko 1994; Reid and Adams 2001). Thus, a fit between strategy and certain aspects of employment security, internal career opportunities, or employees may determine family firm performance.

13.8 Conclusions

The arguments in this chapter are intended to propose a fit perspective to family firm performance. This perspective considers two deficits in the extant studies that may underlie the unequivocal research findings in the extant research, specifically, the neglect of (a) family firm heterogeneity and (b) indirect family influence on firm performance. Indeed, as has been demonstrated by Lindow et al. (2010), applying a fit perspective to the study of family firms appears to be a fruitful route for furthering our understanding of how the interplay between the family and the firm affects family firm performance. This new perspective on family firm performance, which borrows from the strategic management field, indeed, challenges what is currently known. However, as Astrachan (2009) and other scholars in this book argue, it is valuable to question prevalent paradigms in extant research. Furthermore, the application of such theoretical approaches that consider the "distinctiveness of within-group variation in the behavior and performance of family firms" has been highly recommended (Debicki et al. 2009: 162). The study by Lindow et al. (2010) contributed a first step toward examining this new perspective, but many questions remain unanswered, providing plenty of opportunities for future research projects.

13.9 Notes

Case examples have been selected from Langenscheidt and Becher (2007) and Langenscheidt (2009) based on the criterion of heterogeneity in family influence, strategy, and organizational structure.

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Chapter 14
Follow the Capital: Benefits of Tracking Family Capital Across Family and Business Systems

Sharon M. Danes and Katherine E. Brewton

14.1 Introduction

The Sustainable Family Business Theory (SFBT) is a comprehensive and flexible theory developed to enhance understanding of the dynamic role of the family in family business entrepreneurship as well as demonstrate integration of the family, business, and community. SFBT draws upon general systems theory and gives equal recognition to family and firm. The theory focuses on firm sustainability rather than revenue, which is the focus of most other theories used to study family firms. SFBT posits that sustainability is a function of both firm success and family functioning and is concerned with how family members exchange resources across systems. SFBT was introduced in 1999 by Stafford, Duncan, Danes, and Winter. In 2008, changes were presented to clarify tenets, introduce advancements, and explain its applicability to ethnic family businesses (Danes et al. 2008a). It was empirically tested both in 2003 (Olson et al. 2003) with cross-sectional data and in 2009 with longitudinal data (Danes et al. 2009b).

Assumptions, concepts, and propositions of SFBT will be used in this chapter to track family capital in one family business, Kozlovsky Dairy Equipment, Inc. Family capital refers to stocks and flows of the total bundle of owning family resources composed of human, financial, and social capital (Danes et al. 2009b). SFBT assumes that firm and family systems are functional subsystems of the family business system and identifies parallel family capital resources and interpersonal and resource processes. SFBT also assumes that experiences in one system inform the other because of the focus on resource stocks and flows over time leading to short-term family and firm achievements and long-term family business sustainability.

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Most family business research is based on theories whose focus is primarily on structures, roles, and rules, which are unobservable theoretical concepts. A major underlying assumption of these theories is that if structures are changed, processes will change accordingly in a way that might be observable. The same underlying assumption exists in most family theories. Family theories primarily focus on relationship dynamics among family members. Those dynamics are often based on such things as love and trust, which are unobservable theoretical constructs. SFBT is unique in that it aims to measure observable theoretical constructs. The theory tracks accumulation of resources (human, social, and financial capital) and access and use of those capital stocks over time, including resource flows back and forth between family and firm. One major theoretical premise of SFBT is that resource pattern use during times of stability creates adaptive capacity for challenges during times of planned change or unexpected internal and external disruptions. Owning family adaptive capacity, when combined with its social capital, creates a type of resilience by facilitating resource transport across porous boundaries of the family and firm during change, while maintaining boundary integrity. Adaptive capacity is often what sustains the family business when disruptions occur to either family or firm.

The theory also recognizes that there are standard operating procedures in times of stability and exception routines (Stallings 1998) in times of change and/or disruption. Exception routines are mechanisms for addressing routines that need to be restored due to the social disorder caused by an internal or external disruption. The case study will describe the Kozlovsky family business' standard operating procedures in stable times to illustrate levels, access, and use of family capital, flows of the capital over time, and its impact on short-term firm and family achievements and long-term sustainability. It will also describe exception routines employed after the Kozlovskys lost nearly everything in a business fire. This disruption will allow for illustration of how resilience capacity created by family capital stock reserves and the access and use of family capital utilized across family and business boundaries after the fire helped save the business. The development and use of this resilience capacity and the resulting long-term sustainability will be illustrated through application of the theory's propositions to the Kozlovsky case study where resources are tracked across family and firm systems and how those resource management practices are carried from one system to the other while retaining the functionality of both family and firm.

Many theories used to study family businesses do not incorporate family members who are not owners or who do not work for pay in the family business. SFBT assumes that all owning family members have an influence whether they work in the business or not. One of SFBT's unique characteristics is that it recognizes that there are some family processes that are within the family only and some business processes that are just within the business domain, but that there are other processes where resources are shared across boundaries at the intersection of the family and business systems. Two important assumptions of the SFBT are that (a) an individual in either the family or business system may affect parts of both systems, and (b) the family or business system can die if the boundaries are too diffuse.

The Kozlovsky case study will be utilized to explicate the concepts and propositions of SFBT. The following section will introduce the case study and provide a

basic explanation of the structure and roles of the family business. Since the focus of SFBT and this chapter is tracking family capital resources and the processes that access and use that family capital in family businesses, additional details about the case study will be revealed as the chapter progresses.

14.2 Kozlovsky Dairy Equipment, Inc. Case Study

Bob and Margaret Kozlovsky started the family business in 1955. In 1993, it was transferred to two of their sons, Dan and Joe, through a purchase of property by land contract. The purchased property included Bob and Margaret's house, which doubled as the business location. The legal agreement stipulated that Bob and Margaret could continue living in the house until death and provided a monthly income to supplement their Social Security. Bob and Margaret continue to pay for utilities and house care. The property is prime riverfront property that is increasing in value.

The management of the family business was transferred from the first generation to the second at the same time the dairy industry was structurally changing. During the first generation, Bob and Margaret had a "buddy" relationship with customers and deals were sealed with a handshake. Such a relationship with customers was not going to be sustainable with industry changes. In the same year management was transferred, the business legally incorporated. The brothers own equal shares in the company. Joe's wife, Desiree, began working in the business in 1993 as a bookkeeper at $6/h; she was later promoted to office manager for her performance and to give her increased credibility with the employees. Dan's wife, Renee, has worked periodically in the business but currently is not involved. Dan's son, Zac, has worked in the business since age 18; he is currently 21. Joe's son, Jamie, is 27 and has worked in the business approximately 1 year. Discussions surrounding transfer of the business to the third generation have not been extensive, but Dan has told Zac that he will not force him to take over; rather, he must want to.

Kozlovsky Dairy Equipment's mission statement is "To under-promise and over-deliver the highest quality service and product line." They have recently added "creating peace of mind for our customers, our employees, stockholders, and all our families." The owning family uses this mission statement with the business team and employees to create direction for the business. Of critical note is that "families" in the mission statement refer not only to the owning families, but also to families of customers and employees. Because customer service is the heart of the business, a third addition to their business mission statement used in business decision team and staff meetings is, "Who do we serve? Professional dairymen motivated and dedicated to optimizing their dairy operation through a cooperative partnership that appreciates and values high quality service and products."

The business has four segments; because of the nature of these segments, it is a 24/7 operation. There are also considerable fixed costs in the business. The first segment is selling milking systems and installing milking parlors. For new dairy businesses, the installation projects are extensive; however, they also install smaller

projects for expansion and remodeling projects. This part of the business is hard to manage because when the business has installation projects, there are not enough employees; and when they do not have installation projects, they have too many employees.

A second business segment is maintaining equipment. It is accomplished through scheduled maintenance contracts and emergency maintenance requests. Employees in these first two segments of the business need to be sophisticated technologically; there is a high training curve due to the types of equipment that need to be maintained and constant changes being made to the equipment. The third segment of the business is the "route." Service technicians who work the "route" sell relevant supplies to customers and call on each of their customers once per month. The business cost for this segment includes the service technicians and well-equipped trucks. The fourth segment is selling inflations. Inflations are the most frequently replaced component of milking centers and are vitally important to customers' quality management. Since this product requires more frequent replacement than the scheduled route service can accommodate, the service is separate. Employees who sell inflations do not need the technological training depth required of the service technicians who work the "route."

The four segments of the business necessitate seven or eight service technicians and installation employees, three "route" employees, one and one-half inflation employees, one shop employee, one office employee, and one or two part-time employees as needed. The business leadership team is composed of Dan, Joe, and Desiree. The leadership team meets once per week on Tuesday mornings. Once per month, they review financial data from the previous month and quarterly financial data generated by Desiree. Once per year, they meet to do employee evaluations. Other than these meetings, when a member of the leadership team feels that there is an immediate need to be addressed, he/she will pull the other two into an office for discussion.

Every Monday morning, there is an employee meeting. Once per month, it is a breakfast meeting where Desiree cooks and larger business issues are discussed. Both the owners and employees indicated that these weekly employee meetings have become crucial to business sustainability because they have prevented issues from "falling through the cracks." Weekly owner and employee meetings, annual reviews, and daily conversations between the owners keep everyone "on the same page." It is known that if something happens during the week, it can be discussed at the next Monday meeting.

On December 17, 2003, the business experienced a fire that destroyed the office building and all inventory except the service equipment in the "route" trucks. Only the contents of one computer hard drive and three file cabinets were recovered. Past business records were lost in the attic of the building. Scheduled maintenance records for the upcoming weeks and work orders were also lost. Dan had just finished refurbishing the office building by creating a bigger parts inventory room and upgrading the office area on the Sunday before the fire. "And on that Wednesday," he said, "we were scooping it up and putting it in the dumpster because we pretty much lost the whole building."

The fire was discovered at 4:30 a.m. Dan said, "A woman was driving to work and seen the flames coming from the garage. She went to the house, pounded on the

door, and that's when they called the fire department." The fire caused the business to enter "survival mode." By 10 a.m., an emergency meeting of all employees had occurred to decide roles and tasks. Desiree stated, "the employees had our backs" and "were awesome." All of them assisted in some way on the day of the fire, including one employee who had recently been fired. Another employee had recently received a large sum of money through a legal transaction and offered it to the owners to help with the transition. The generosity of the employees and their presence at the business location immediately following the fire demonstrates the sense of community that exists among the owners and employees. "It was a true testament to how tight this group was," said Desiree. Desiree had given a kidney to her father 5 weeks prior to the fire so she was not entirely functioning as usual; she had caught up with record keeping the day before the fire. Joe had a barn on the property that he and Desiree had recently bought; it became the new office location. That site remains the family business location; however, they still pay their parents on the land contract where the previous office and inventory structure existed.

14.3 Resources, Structure, and Constraints

Family capital resources in SFBT are classified by their forms – human capital, social capital, and financial capital; note that resources within the business are identical to the family resources (Fig. 14.1). The only difference is that in addition to

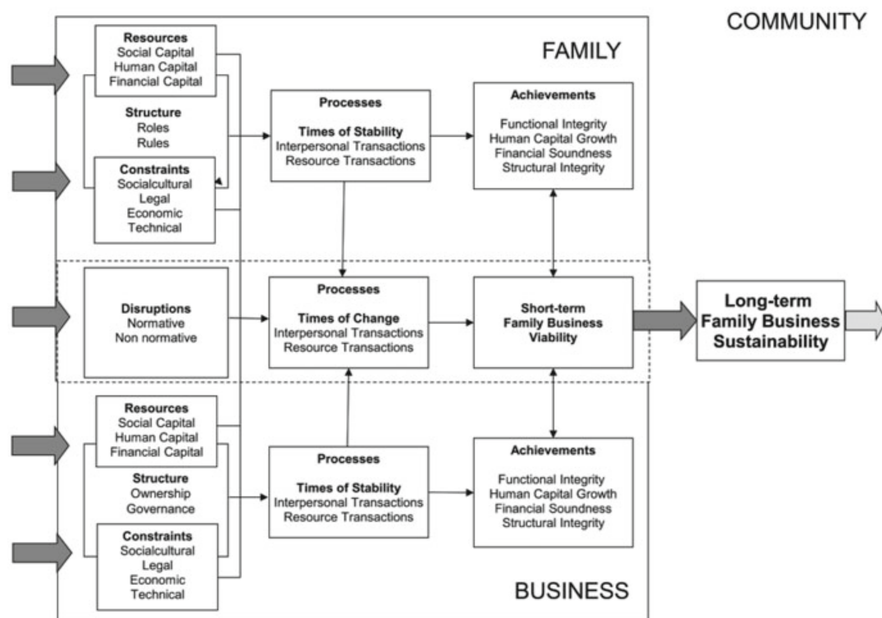

Fig. 14.1 Sustainable family business theory (SFBT)

family members, nonfamily employees, managers, or leaders are part of the business structure. Family capital resource inputs to families and firms are inherently a stock concept. In other words, capital is a supply reservoir rather than a flow of services. The rate of flow and use of capital fits under processes of resource and interpersonal transactions. Understanding flows as well as the stock of owning family capital is critical to understanding long-term sustainability because Danes et al. (2009b) found that access to and utilization of family social capital over time was more important for sustainability of the family business than the level of family social capital.

14.3.1 Family and Business Human Capital

Family and business human capital refers to attributes of individuals, such as knowledge, ethnicity, education, experience, and energy of business owners. Values and beliefs of owning family members are part of the stock of human capital resources. Values rooted in business owners traverse the permeable boundaries of family and business systems when business owners develop and enact business rules and processes (Danes et al. 2008b). Many family members work in the business and transport human capital to the firm to promote productivity in the business. Business human capital, such as ethnicity and education, is possessed by workers within the firm setting as opposed to the family setting. These forms of human capital are manifested by workers within the firm setting and offered to the work at hand.

Having both positive and negative human capital attributes heightens the importance of human capital management in achieving firm success (Astrachan and Kolenko 1994). Positive attributes of family firms' human capital include strong commitment (Horton 1986), friendly and intimate relationships (Horton 1986), and potential for deep firm-specific tacit knowledge. Early involvement of children in the firm produces deeper levels of firm-specific knowledge through direct exposure and experience (Lane and Lubatkin 1998), giving family employees deeper levels of firm-specific knowledge than employees of nonfamily firms. Negative attributes of family firms' human capital are the lack of such attributes.

14.3.2 Case Members' Family and Business Human Capital

Dan is reserved with people he does not know. Thus, he hates the cold-calling part of the business. He has been working in the business since he was 11 and full-time since 18. He admits that he is not the most organized person. When asked to make a decision, he does not answer immediately because he needs process time. He has earned the respect of the employees and considers himself a good listener. Joe likes to stay busy and wants to make everyone happy. As a result, other family members state that he is an easy target for others to take advantage of his generosity. The cold-calling part of the business does not bother him. He interacts with people easily.

He has also worked in the business since he was young except for one summer when he was not allowed to work for the business because he was "acting out" as do some teenagers. Being on-call and not being able to fix a problem when he is on-call is one of his greatest fears. Desiree is organized and works with details well. She has financial training. She tends to not let people complete their thoughts before she is already talking and setting a plan in motion to address the issue. Her tendency to do this has the potential to make others feel as if their ideas are being discounted. She has been trying to improve this behavior. Desiree grew up in a family business that failed and, thus, has definite ideas about how the family business should operate.

An observation made during the process of interviewing the Kozlovsky family was that Dan, who described himself as reserved with people that he does not know, was quite talkative while Joe, who said that he interacted easily with people, was more reserved. This suggests that although human capital stock is important, its flows (i.e., access and use) are deeply affected by and embedded within relationships with others.

14.3.3 Family and Business Social Capital

Family and business social capital is the stock of good will, trust, and confidence in family members or their firm. Social capital is a latent resource that is typically consumed only when it is needed (Bengston et al. 2005). It can be relied upon to uphold social norms and reciprocate favors (Zuiker et al. 2003) for the firm's benefit. Wright et al. (2001) identify family as the key institution through which social capital is transmitted via investment of time and effort, development of affective ties, and guidelines about acceptable and unacceptable behaviors. These relational behaviors are based on contextual values, beliefs, and norms that emanate out of family structure, roles, and rules (Arregle et al. 2007).

Social capital is the result of interactions among family members and among family members and employees within the business. It is input to the firm to facilitate action (Danes et al. 2009b). Business social capital exists in the form of trust, respect, and altruism among owning family members, employees, managers, and leaders. In part, the accumulation of social capital has its roots in human capital. It may be the case that families who foster and grow their human capital may be more able to germinate, transfer, and/or flourish this social capital within their firms. For example, family members who trust each other may simply transfer that trust to their firm setting. Those working in the firm may be able to allow more freedom and less control over each other and over their nonfamily employees.

Family business literature indicates that conflict affects family business sustainability (Danes and Olson 2003). In one study of women's role involvement in family businesses, business tensions, and business success, there was some evidence to support the idea of a threshold where tensions reached a point at which it affected the functional integrity of the family business (Danes and Olson 2003). This threshold is important because of the interesting paradox surrounding tensions. On one

hand, a certain level of tension acts as a creative mechanism and can increase the health, growth, and success of both businesses and families (Danes and Morgan 2004). Higher levels of tension, on the other hand, can have the opposite effect including reduced health and satisfaction, stunted growth, and diminished success (Danes and Olson 2003).

The impact of the couple relationship is even more important in venture creation (Danes et al. 2010). The way the spouse and entrepreneur interact and sustain one another influences new venture success and sustainability (Cramton 1993; Danes et al. 2010; Rogoff and Heck 2003; Oughton and Wheelock 2003). Arguably, couple interaction and sustenance is the very foundation for an emerging family business (Dollahite and Rommel 1993). The couple interaction is not only the foundation for such things as spousal commitment and support for the new venture, but, over time, the solidarity or eroding of that relationship as the couple traverses the liabilities of newness can impact business achievements in the short-term and business sustainability in the long-term (Danes et al. 2010; Van Auken and Werbel 2006).

14.3.4 Case Family and Business Social Capital

The trust and respect that have developed through continuous communication and discussion among Dan, Joe, and Desiree in the weekly leadership team meetings have penetrated the business via the weekly employee meetings. Dan begins a typical employee meeting by reviewing with the service technicians the installation jobs from the previous week on the work board. If all jobs are completed, then they move to a clean slate with the installation jobs for the current week.

Previous work jobs are erased before setting the current week's schedule for two reasons: (a) to make certain nothing is forgotten, and (b) to allow for immediate discussion if there are questions about performance or other problems. The half-hour to three-quarter hour meetings also provide employees with the opportunity to identify issues that need to be addressed. A recent issue identified was the need to update the written credit policy. The leadership team will develop the first draft of the revised policy. Then they will present the draft at another weekly employee meeting for input.

The trust, respect, and commitment that have been generated through these weekly leadership and employee meetings create an adaptive capacity during stable times. The generosity and energy of current and past employees exhibited at the time of the business fire exemplify the exception routines that kicked-in during a major disruption to the business. Those exception routines included the financial and technical support extended by the parent company. The Kozlovskys had worked feverishly and effectively over the previous 2 years to dig themselves out of a management and financial quagmire, including the hiring of a management consultant with whom they worked closely. The social capital reserve that the Kozlovskys had within the owning family, among employees, and with the parent company became the lifeboat that allowed them to survive this major business disruption. The "lifeboat" was the store of trust and creativity in problem solving shown from the family and business social capital stock.

14.3.5 Family and Business Financial Capital

Family and business financial capital includes such tangibles as money, credit, assets such as land and business buildings, and investments of all kinds (Danes et al. 2008b). Assets are tangible or intangible and are considered applicable to the payment of one's debts. Financial assets are cash or assets readily converted into cash. Physical assets are less readily converted into cash. Certainly money, credit, and financial investments feed the gristmill of the firm within and between/among a particular business to other businesses.

Small firm finance literature acknowledges intermingling of firm and family resources (Zuiker et al. 2002) and indicates that many small firm owners fund their firms through personal savings, supplemented by family money and community resources (Kushnirovich and Heilbrunn 2008). Cole and Wolken (1995) reported that 39.2% of small firms used personal credit cards for their firms. These financial commitments represented sacrifices of not only individual owners but also their families.

Within family firms, family and firm have been found to compete for resources of individual family members and of family collectively (Stafford et al. 1999). Family firms used strategies that juggled resources to address needs during high-demand times. Examples of strategies used included family members helping in the firm without pay, transferring less firm income to the family for a short time, or hiring temporary help in either the family or firm (Danes et al. 2009b).

14.3.6 Family and Business Constraints

Constraints on families and their businesses limit resource use. Constraints are classified as sociocultural, legal, economic, and technical in nature (Fig. 14.1) (Danes et al. 2009b).

Family and business sociocultural constraints consist of norms, mores, and ethics within owning families and their businesses. Norms are standards, measurements, or judgments. Standards agreed upon by owners, employees, and managers represent their regular or customary way of doing something within the business such as production line work, delivery of services, quality control measures, or project completion. Mores are traditions, customs, or ways of living manifested in owning families.

Family and business legal constraints include laws and regulations often intended to control various behaviors and activities in the business. Tax laws dictate the amount of taxes due. Business laws and regulations may vary over time and among federal, state, and local governing units. Laws and regulations may either enhance or limit a business and its achievements depending on their nature.

Family and business economic constraints include the mechanisms of supply and demand within our capitalistic system as well as the general notions of how scarcity and abundance affect businesses. Just as families may be stressed or strained during periods of economic recession or depression, so can businesses suffer. Established

markets and consumer demand may be reduced and therefore business income may be reduced, in some cases drastically. Regenerating or constricting a business and its resulting revenues may be one strategy to compensate for lower demand for a business's standard products and services. In contrast, times of abundance may provide economic opportunities of many kinds such as increased business income, an expansion of a business venture, among others.

Family and business technical constraints include laws of nature related to physics, chemistry, and natural sciences and result in such phenomenon as climate, weather, and natural disasters of all kinds (Hammond 2003). Such technical constraints limit firm activities at a very basic level and may either enhance or limit business processes and its achievements depending on their nature.

14.3.7 Family and Business Structure

Family structure refers to roles and rules of the family system (Fig. 14.1). In family firms, owning families may need additional structures, such as a family council, to handle or manage family matters. Family structure changes over the life course as family members age and marry, have children, or leave home. Ethnic groups may define family roles differently (Danes et al. 2008a). Family capital is grounded in structure that is composed of family roles and rules. Family roles and rules are a state and not a process (Danes et al. 2008a). They clarify membership, organization, and bonding (Danes et al. 2002; Stewart and Danes 2001). They also clarify who leads, specify how members manage or distribute family resources, and limit the effect of constraints.

Family roles and rules, such as household manager, parent, spouse, child, sibling, etc. are assigned to family members. While roles change over time, individuals in the roles can be most effective when the roles are well-defined with boundaries known and respected by all family members. Rules include such phenomena as inclusion, integration, boundaries, commitment, and core values (Danes 2006). Shared meaning is core to family roles and rules and include values, norms, and beliefs of the family's culture (Haberman and Danes 2007). Decision inclusion and authority patterns also are a part of family roles and rules (Danes and Morgan 2004). Some of these roles and rules are evident to every member of the family, but some may be so deeply ingrained within the family culture that members count on them unconsciously (Haberman and Danes 2007).

Business roles and rules include ownership and governance. Firm ownership is as varied as business-owning families. Governance within the family business often starts with the notion of professionalization or, in other words, incorporating formal business practices into business operations. Because family businesses are likely to evolve from the informality of the family unit, sometimes the associated family business must formalize their structures internally so that effective operations can be promoted and implemented (Gallo and Tomaselli 2006; Songini 2006). Roles and rules also determine how the business defines itself in relation to the outside world (Danes and Olson 2003).

14.3.8 Case Family and Business Roles and Rules

Dan and Joe are two of one dozen siblings, eight of which are women and four of which are men. Dan is Bob and Margaret's first-born son and Joe is 2 years younger than Dan. Both Dan and Joe married young; Desiree is Joe's second wife. When Joe was married to his first wife, a family rule existed that no spouses were to be involved in the business. An implicit family rule indicated by behavior and dialog is that siblings are responsible for overseeing that their parents live a comfortable life in retirement. Within the business, Dan manages the service and installation department and does all bidding for the installations. Joe manages the regular routes, including those servicing the inflations; he also manages the chemicals, which are a major product type sold on the "route." One way Dan and Joe have dealt with their tendency to be competitive with one another is to maintain different roles in the business. Desiree supervises the office staff and manages the bookkeeping system.

14.3.9 Propositions: Resources, Structure, and Constraints

(a) Family capital (composed of human, social, and financial capital) from both family and business are inputs that can be used to solve problems of the collective interaction of family and business
(b) Capital can have simultaneous positive or negative effects on firm performance, depending on the circumstances
(c) Constraints impose limits on alternative capital, processes, and achievements available

Family members working in the business may be a good illustration of the dual empowering and constraining aspects of capital. Working in the business can be a resource or constraint depending on the life cycle stage of the family or the business. For example, during the early years of a family venture, the family often provides the firm with a steady supply of trustworthy human resources (Ward 1997). In fact, Chrisman et al. (2002) stated that new family firms might not face the same liability of newness because of the labor provided by family members. In their formative years, family firms benefit from human and social capital transfers between family and firm because family social capital fosters commitment and a sense of identification with the founder's dream (Van Auken and Neeley 2000; Van Auken 2003; Winborg and Landstrom 2001). The human capital stock of the owning family may be limited or eventually outstripped by the demands of a growing business.

14.4 Processes in Times of Stability

SFBT suggests that resource transactions (e.g., utilization or transformation of time, energy, and money) and interpersonal transactions (e.g., communication or relationship and conflict management) from the business and family may facilitate or inhibit

the sustainability of family businesses. For example, a family social capital resource transaction might include spousal involvement in the business or it might include interpersonal transactions such as development of guidelines about acceptable and unacceptable behaviors of family members related to the business.

The primary family process of concern within family businesses is work/family balance. In fact, Danes and Morgan (2004) found when surveying a nationally representative sample of family businesses that work/family balance was the highest tension producer and remained so over time (Danes 2006). Dan and Renee do not talk business when he goes home in a nearby town. "I try to leave work at work when I go home," Dan said. That is a bigger challenge for Joe and Desiree to do because they work together in the business.

Important resource and interpersonal transaction processes during times of stability in the business are those of quality, employee, and financial management. Interpersonal transaction processes of communication, role, conflict, and relationship management are critical to both the family and firm during times of stability. Interpersonal transactions among family members have been depicted as an obstacle to successful ownership transfer of family businesses (Lansberg and Astrachan 1994; Rodriguez et al. 1999). Yet, family interpersonal transactions may also be a source of support that helps a family business overcome adversity and social change (Simon and Hitt 2003). Van Auken and Werbel (2006) suggest that family members provide financial resources through outside sources of earned income, emotional support in the form of encouragement, and instrumental support in the form of knowledge or physical assistance in helping the family business to survive (Matzek et al. 2010).

SFBT processes transform inputs into achievements in the short-run and sustainability in the long-term, given structure and constraints. In the short-run, processes use capital to create other capital or enhance and increase existing capital. Short-run processes that entail capital flows result in transformed capital stocks that are available inputs for future periods' processes, determining long-term sustainability. Stress in SFBT evolves when resources are threatened, lost, or believed to be unstable, or when people cannot see a path to protecting resources through joint or individual efforts (Hobfoll 2001). SFBT indicates that resources are exchanged at the boundaries of family and firm when disruptions are encountered (Stafford et al. 1999). Thus, responses to disruptions are placed at the interface of family/business and these responses are not a component of family businesses to ignore. Olson et al. (2003) found that responses to disruption explained 20% of business revenue variance.

The overlap of family and firm differs under varied circumstances and during different stages of the family or firm life course can have positive or negative impacts on business. For instance, Habbershon (2006) proposed that as businesses get larger the family influence is less extensive. In one study, the affect of family on business performance was described as ranging from synergistic to constrictive (Habbershon et al. 2003). Synergistic families have beneficial effects on firm performance compared to constrictive families that have negative effects on firm performance. Ensley and Pearson (2005) found that top management teams of family firms performed both better and worse than those of nonfamily firms.

14.4.1 Propositions: Processes in Times of Stability

(a) The process of drawing upon family capital stock creates a change in that capital stock (either enhancement or reduction), that when added to the original level becomes the current period's output, which will be input for the next time period

One year after the fire when the business was again stable, Dan said that employees were "putting in a lot of hours and morale was starting to decline." Dan and Joe knew they needed to do something to reinvigorate employees. They called the employees into the office one day for a special meeting and asked everyone to clear their calendars. Employees were a bit worried about what was going to happen. They thought that perhaps some of them would be fired. However, soon after the meeting started, a bus arrived and Dan and Joe said that they were all going to take the day off to relax and go skeet shooting. It took the employees awhile to realize that Dan and Joe were serious about relaxing and having fun that day. This special-planned event, which had no effect on employee pay, improved employee motivation and ultimately the quality of their work which, in turn, instilled greater employee productivity.

(b) Owning families manage both family and business system resources together to meet overlapping needs instead of each apart from the other

With the business building being on Joe's personal property, some customers thought that he was accessible to them no matter the day or time. In order to allow Joe continued use of the property in his spare time away from the business and still meet the emergency needs of customers, the owners inaugurated a $20 weekend office fee for customers. By introducing this weekend fee, the Kozlovskys were helping customers understand better Joe's work/family boundaries.

(c) The degree of overlap between family and business adjusts depending upon demands emanating from either internal or external demands

Although Dan and Joe's dad is retired, prior to the fire he was "in the loop" about what was going on with the business because both of his sons stopped to see him for coffee and to read the newspaper before beginning their work days. The sons and their dad greatly miss this family/business interaction now that the business is located on Joe and Desiree's personal property.

(d) Out of the overlap of family and business evolves a culture that assumes (either intentionally or unintentionally) some of the values, attitudes, and beliefs of the owning family

The respect with which the Kozlovskys treat their employees comes from the value that Dan and Joe heard all of their life. The statement that drives their employee policy is "treat people like you want to be treated." Dan and Joe do not treat their employees "as numbers" nor ask them to do anything that they would not do themselves or that they already have not done.

(e) Processes in the family and business are composed of interpersonal transactions (e.g., communication, personal relationships, conflict management) and resource transactions (utilization or transformation of social, human, or financial capital) that can be thought as routine, or standard operating procedures

The weekly owner and employee meetings to organize work projects and problem solving issues that arise have become standard operating procedures. However, these routines are not just resource transaction processes. The employees feel that the owners treat their opinions with respect and that they have a stake in the business. As a result, there has been little employee turn-over in the business.

14.5 Disruptions and Processes in Times of Change

A unique contribution of SFBT is that it acknowledges that standard operating procedures used in normal, stable times need to be adjusted in times of change. Ward (1997) indicated that the long-term sustainability of any family business depends on its ability to anticipate and respond to change. Modified processes are needed for a family business to remain healthy when responding to changes that occur during disruptions in either the family or the business system (Danes et al. 1999, 2002).

SFBT stipulates that during stable periods, family and firm are managed within their boundaries. During periods of disruptions, the other system's resources are used. Those adjustments are most often made at the interface of the family and firm where interpersonal and resource transactions occur that utilize the total family capital base from both family and firm. Business and family managers must perceive, process, and respond to a changing environment and reconstruct processes to ensure sustainability over time. Resilience during times of change is the ability of a family business to adjust resource and interpersonal processes to internal and external disruptions (Danes 2006). Using the metaphor of stock and flow in economics and system dynamics modeling, a stock of resilience capacity can be built in either the family or business system, and that capacity can flow across permeable boundaries when it is needed. If families have built a stored capacity for resilience, when they encounter a disruption, the store of trust and creativity in problem solving can be more easily and quickly tapped and adapted to the new situation (Danes et al. 2002).

SFBT recognizes that internal or external change can create disruptions that are either normative or nonnormative. Normative disruptions are those such as peak season of the business when firm processes can become overwhelming to the system. Normative disruptions can evolve from either system (family or firm) such as a family member having the flu and being unable to perform their business duties for a week (Danes et al. 2009a). Some normative disruptions, such as succession and management transfer, can have major impacts on either the family or business system or both simultaneously. Nonnormative disruptions are those that are unexpected or highly unusual such as a natural disaster that forces temporary firm closure (Brewton et al. 2010). The nonnormative disruption in our case study was a business fire that destroyed most of the business records and inventory.

Responses to normative disruptions are changes made in one system (firm or family) to accommodate needs of the other when unusually heavy demands exist. These response patterns to normative disruptions are often referred to as standard operating procedures. Patterns of adjustment behaviors during normal but hectic times and the stock of family capital (composed of human, financial, and social capital) create a resilience capacity that tends to automatically kick in when encountering a nonnormative disruption such as a fire or death of a family member. The owning family is the repository of this resilience capacity (Danes et al. 2009b; Danes and Stafford 2011).

Business disruptions can require firm and family to pool resources to sustain the family business. Further, business disruptions caused by natural disasters, fires, labor actions, cyber or virus attacks, and other major disruptions, can be especially serious and place the firm and family at risk (Keating 2001). These types of disruptions not only impact firm and family, but have very serious ramifications for the host community. If the business community finds itself unable to recover from these disruptions, these communities face the dual challenges of decreased business and agency services and increased social and economic needs. Businesses leave because they are unprofitable and agencies depart because they are serving too few people, while those remaining in the community grapple with the challenges of a declining community. Internal to the family business, tensions resulting from the disruptions of change affect the interdynamics between spouses who own family businesses. The tensions that occur between spouses at the intersection of the family and business systems often center around resources such as the allocation of finances, the distribution of time across the family and business, or the energy and commitment provided to either or both systems (Danes and Morgan 2004; Danes et al. 1999).

14.5.1 Propositions: Disruptions and Processes in Times of Change

(a) Systems interact by exchanging capital (resources and constraints) at their boundaries during times of disruption and those resources can be tracked

Joe and Desiree had a barn on their recently purchased personal property and offered it to the business after the fire for a minimal rental price so that the business had a place to store inventory and have an office. Their contribution was not only a family financial resource transaction, but a social capital resource transaction, as well. Now they have varied business traffic, including semis, on their personal property. Joe immediately became more accessible to employees because he was constantly on the property.

(b) After disruptions, processes must be reconstructed to ensure sustainability over time

At the time of the business transfer, Dan and Joe's father did not feel obligated to share any of the financial or legal agreements with the remainder of his children.

Thus, the other siblings assumed Dan and Joe were given the land where their parents lived as well as the business. When major work needed to be done on their parents' house so that they could live on one floor, the siblings stated that Dan and Joe should pay for the adjustments. To address this family disagreement, Dan and Joe hosted a family meeting with all siblings and no spouses to discuss financial and legal agreements such as the land contract that they were paying their parents and the renting of the building used for the business. They revealed all business assets and liabilities. Dan and Joe offered each sibling the opportunity to buy into the business, but no one chose to do so. Reconstructing the "wall of silence" about business succession and transfer decisions reduced family tension by providing the siblings with knowledge they did not have.

(c) Conflicts arise when there is a mismatch between demands and resources that can be used to meet those demands

The leadership team understands the 24/7 nature of the business and its effects on their families and those of their employees. The way they manage this demand when emergency needs from customers arise is to distribute the off-hour on-call times. Dan and Joe alternate between Tuesdays/Thursdays and Mondays/Wednesdays each week. Seven employees handle Friday night through Monday morning on-call periods every other weekend. By distributing the on-call hours in this manner, they are trying to avoid the work/family balance conflicts that tend to arise with 24/7 on-call businesses.

(d) Patterns of resource and interpersonal transactions in firm and family systems during times of stability create a resilience capacity that serves as a foundation for addressing stresses during times of change and disruption

Weekly employee meetings provide a platform for owners to discuss weekly work orders, on-call schedule issues, and other timely communications. Employees know that if they have concerns that develop during the week, they can introduce them at the meetings. The monthly breakfast meetings additionally show appreciation from the owners for the work that the employees do. Work organizational processes that take place within these meetings have become standard operating procedures. So when the fire occurred, the emergency meeting was called and these standard operating procedures "kicked-in" to help determine who would do what and who would be in charge of what so that the emergency service parts and equipment could be ordered and priorities could be established. Without the resilience capacity created by these standard operating procedures, the base from which the exception routines flowed would not have existed, and the recovery process would not have worked as effectively or efficiently.

(e) Family and business are affected by environmental and structural change that can be normative and nonnormative

When Dan and Joe took over the business from their parents, many business processes had to change to remain sustainable over the long-term including the manner in which accounts receivable were collected and quality management

procedures. The number of customers was increasing and it was necessary to operate differently in terms of production costs, competitor analyses, and quality control. With an increased standard for milk quality experienced by their customers came the recognition that quality milking equipment was necessary to meet those required standards for their customers.

14.6 Achievements, Short-Term Family Business Viability, and Long-Term Sustainability

SFBT recognizes components of both short-term family business viability and long-term sustainability. Family firm achievements are current year's outcomes; they are revenue, profit, goods and services produced, perceived success, jobs created, etc. Viability is the result of family/firm achievements in the current year. Achievements are multiple and must be evaluated multidimensionally for a complete outcome assessment (Cooper and Artz 1995; Cooper et al. 1988a, b). In SFBT, viability is the result of the overlap between what the family and firm achieved during the current year (Danes et al. 2008a). Sustainability is the outcome from multiple years of viability.

Long-term sustainability is a function of both firm success and family functionality. Both achievements within the family and business join and interact to create short-term family business viability. This short-term family business viability is represented by the separate but related well-beings of the family and of the business because family and business are inextricably interconnected. One cannot achieve well-being in either system without reaching the well-being in the other system.

A constant over time in measuring family business achievements has been financial measures (e.g., income, profit, growth); those measures have long been the gold standard against which family businesses have been measured. More recently, however, the multidimensionality of firm success has been recognized (Danes et al. 2008b; Paige and Littrell 2002). Examples where authors have simultaneously tested firm performance with financial and nonfinancial measures are Olson et al. (2003), Danes et al. (2008b), and Danes et al. (2009b). Subjective, nonpecuniary measures of firm success provide more insight into the owner's commitment to or passion for the firm (Stanforth and Muske 2001).

SFBT has always recognized the multidimensionality of family firm achievement and sustainability. This SFBT proposition addresses Gimeno's (2005) argument that family firms must meet owner expectations as well as financial criteria to be considered successful. In the first version of the theory (Stafford et al. 1999), objective and subjective measures were viewed as different measures of the same construct, business success. Considering empirical results from consequent analyses incorporating human, financial, and social family capital and their influence on family firm performance, Danes et al. (2008b) and Danes et al. (2009b) have suggested that rather than objective and subjective measures of the same construct,

results indicated that family firm owners have financial and nonfinancial objectives for their firms. The qualitative nature of differences (different significant variables in the two equations or different variable signs) that specific types of family capital had on the two dependent variables (gross revenue or perception of success) indicated true multiple firm objectives (financial and nonfinancial) for family firms.

Family business integrity is rooted in the functional integrity of the owning family and is the core of family business resilience capacity over time. Contributing to this argument, Stafford and Avery (1993) identified congruity as an important family output and defined it as "the extent to which the different schedules pursued by a family, both individually and collectively, fit together harmoniously, appropriately, suitably, or agreeably" (p. 18). Family business congruity represents the perception owning family members have about decision making and activity coordination that fit together harmoniously into group knowledge and action (Avery and Stafford 1991). The congruity of the owning family, however, can often implicitly and sometimes explicitly influence the management of family business employees. At any point in the flow of resilience capacity, congruity can vary depending upon current conditions at the family/business interface. Lack of congruity undermines efficiency, reduces cooperation, and decreases resilience.

In a study of integrated, interfunctional family business quality management inclusive of family/business management and utilizing multidimensional business success outcomes, the results supported the importance of including family/business interface management as a component of an integrated, interfunctional quality management approach (Danes et al. 2008b). Business and family/business interface management explained significant proportions of the variance in both measures of success (log of gross revenue and congruity between family and business). Family/business interface management, however, explained 3.7 times more variance in gross revenue than business management explained. Further, family/business interface management explained 2.9 times more variance in congruity than business management explained.

14.6.1 Propositions: Achievements, Short-Term Family Business Viability, and Long-Term Sustainability

(a) Sustainability is a function of both business success and family functionality

When Dan and Joe were children, they indicated that they always "butted heads" because of the competition between them. As Desiree came into the business that competitiveness was exacerbated so that Dan felt as if it were a 2-to-1 situation. They had to work hard on both sides to conquer these issues. Desiree had to learn to not start conversations with "Joe and I talked last night about…" and Dan had to learn that Desiree was committed to the business and had its best interest at heart. Respect for Desiree and her work ethic led to trust, which eventually led to Dan and Joe giving her more credibility with the employees via promotion to office manager.

(b) Owning families manage family and firm jointly to optimize achievements

Desiree was 6 months pregnant when she took over the financial record keeping job in the business for "the very reasonable rate of $6/hour." She needed a job and said that no one would hire someone so pregnant. Dan had to think about hiring a family member because of the "family business rule" of not hiring spouses, but in the end, after a "pretty hard sell," he agreed. He chose to trust a family member with a personal stake in the business over a nonfamily member. Dan and Joe accessed latent family capital stock in Desiree, and drawing on previously developed social capital stock between the two owners, adjustments were made in family rules and roles to optimize family business achievement.

(c) Family firm outcomes include both short-term viability and long-term sustainability

In a primarily service-oriented family business such as Kozlovsky Dairy Equipment, Inc., structural integrity of the business is dependent upon employee motivation and performance to meet quality standards needed to sustain the business long-term. Dan and Joe's employee philosophy of "treating employees like we want to be treated" and having an "open-door" policy about concerns is crucial for short-term viability of the business because motivated employees will provide quality service to customers. Dan and Joe recognize that their employees work long hours so they do special things on a regular basis such as the monthly breakfast meetings. Often employees' spouses are included in events that they plan because Dan and Joe know that work/family balance is an issue with their employees' families, too. The Kozlovskys have organized, for example, camping and golfing events for employee families in the summer and bowling events in the winter. These are in addition to the traditional business events of most businesses, such as a Christmas party. Desiree stated, "It's nice when times are good that we can give back. And I don't feel that our employees have ever not appreciated anything we've done for them." In turn, employee motivation and commitment created in the short-term enhanced quality standards and a stable employee base within the service business, all of which has contributed to the long-term sustainability of the business.

14.7 Community Context of Family Firms

SFBT recognizes that the firm is part of a larger system by placing the family business within its community context (Danes et al. 2008a). Business/community symbiosis is recognized within SFBT because firms do not make economic decisions in a social vacuum, but rather in the social context of their community host (Danes et al. 2009b). Community is defined in SFBT as a collective interaction rather than simply a group that shares a few common characteristics (Kulig 2000) because families act as the mortar that connects communities, individuals, and firms and makes them functionally effectively. The firm/community interaction plays a prominent

part in the management of many ethnic family businesses (Danes et al. 2008a; Fitzgerald et al. 2010).

Members of family and business systems may interact with the community; the manner and degree to which that interaction with the community occurs is rooted in the meanings that family members give to that activity. The owning family provides a fertile environment of values, attitudes, and beliefs that serve as inputs into the family business culture. One of the attitudes from the family that often transfers into the business through its family employees is responsibility to the community. Responsibility to the community is especially salient among rural family business owners (Brewton et al. 2010). Success of the family business depends upon whether the firm is managed in harmony with the local community culture (Astrachan 1988; Niehm et al. 2008). A positive symbiosis between the family business and its community host is more productive for both the firm and the community compared to a situation where there is not a good match between the two cultures (Fitzgerald et al. 2010).

14.7.1 Propositions: Community Context of Family Firms

(a) A positive symbiosis between family, firm, and its community host is productive for both firm and community

The Kozlovsky family business services a number of family businesses in the surrounding area. Employees of these businesses appreciated what the family did to stay in operation after the fire; it affected their families' incomes. The community was affected, too. Since the fire, the business has grown such that the "route" covers a two and one-half hour area. They also have employed a number of former owners of dealerships like theirs that are no longer operating.

14.8 Summary and Conclusions

Conceptual (Danes et al. 2008a; Heck et al. 2006; Stafford et al. 1999) and operational (Danes et al. 2009b; Olson et al. 2003) aspects of the SFBT have been the focus of this chapter. The comprehensive nature of the SFBT enhances understanding of family in the business and business in the family through its systems orientation. It locates entrepreneurship and the business within the social context of the family and its community. Unlike many other theories that take a comprehensive approach to the study of the family business, it emphasizes the interaction of the family and business systems while recognizing the different characteristics of each.

Future family business research grounded in a family business theory such as SFBT will: (a) incorporate the integrated nature of owning family capital – a bundle of human, financial, and social capital; (b) emphasize managerial processes of family and business resources and not just roles and structures; (c) give recognition

to mutual functionality of family and business systems; (d) recognize that processes are different in times of stability and times of change; (e) identify that family firm success is inclusive of both short-term viability and long-term sustainability; and (f) recognize that a positive symbiosis between family, firm, and its community host is productive for both the firm and community. When grounded in such a theory, certain methodological criteria are necessary to operationalize the theoretical principles. Many of these methodological principles were utilized in the collection of the National Family Business Panel data (Winter et al. 1998, 2004).

When collecting data using SFBT as its foundation, both family and business system variables are needed. Multiinformants are much better than single informants because family and business management variables are best asked of the person who primarily oversees those system processes. Longitudinal data are necessary to capture processes in times of stability and change. If a researcher is to study factors influencing short-term viability and long-term sustainability, again longitudinal data are necessary.

For family business research to progress in the future, the complexities of the family business system need to be captured in the data that are used to do the research. That means research teams need to be multidisciplinary and data need to be collected using multiple methods. It means that funding sources will have to be pooled because such research is expensive. It means that researchers need to prepare their students for meeting the challenges of conducting such research both theoretically and methodologically with the intent of enhancing knowledge within our field of study concerning family businesses worldwide.

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Chapter 15
Understanding Hybrid-Identity Organizations: The Case of Publicly Listed Family Businesses

Börje Boers and Mattias Nordqvist

15.1 Introduction

Family businesses are characterized by the combination of two institutions – the family and the business – that are traditionally assumed to be based on different identities (Tagiuri and Davis 1996; Ward 1987). Based on this fundamental feature of family businesses, we develop the idea of the family business as a hybrid-identity organization (Arregle et al. 2007; Foreman and Whetten 2002). Borys and Jemison (1989) define hybrids as "…organizational arrangements that use resources and/or governance structures from more than one existing organization" (p. 235), and Albert and Whetten (1985) define hybrid-identity organizations as "…an organization whose identity is composed of two or more types that would not normally be expected to go together" (p. 95).

In this chapter, we argue that publicly listed family firms on the stock exchange represent an extra interesting case in point to better understand hybrid-identity organizations. Recent research on corporate governance (e.g., La Porta et al. 1999; Anderson and Reeb 2003, 2004; Morck 2005; Villalonga and Amit 2006) has uncovered the importance of family control on stock exchanges around the world. We assume that there are tensions arising as a result of the simultaneous presence of the "family" and the "market" or the "private" and the "public" in publicly listed family firms that foment the hybrid nature of these types of organizations. The public nature of a firm means, for instance, that there are legitimate claims from non-

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family minority owners, analysts, monitoring agencies, codes of conduct committees, and business press journalists following the development of the firm and the shares to give and receive information. Completely private family firms do not have to respond to this to the same extent. Thus, publicly listed family firms posit unique challenges for leading and governing both the firm and the family, and can thus be seen as a particularly interesting type of hybrid organization.

Drawing on the hybrid-identity lens our study is based on in-depth case research into one Swedish publicly listed family firm called Niul. The empirical material is gathered through interviews with board members, owners, chief executive officers (CEOs), and other stakeholders. The main focus of the empirical fieldwork and qualitative analysis was on some of the main strategic and governance changes that have occurred in the recent history of Niul.

15.2 The Case: Niul

The Lindskog family is the main owner in the publicly listed company Niul. They control the firm through ownership held by private individuals and two major foundations. Today the Lindskog family is a fairly large family with several branches. Niul has its origins in the trading company Lindskog & Berg founded in 1866 as the first wholesale company in Sweden for iron and iron products. It was registered by the former master smith at the Grastorp Ironworks, Julius Lindskog. The current name of the firm was introduced in the 1930s as a combination of the two main owners NIls and ULf Lindskog when they formed a holding structure. Lindskog & Haak continued as a daughter company within the group until 1979 when it was sold. Niul was floated on the stock market in 1954.

In 1995 the Niul board decided that the firm should be a "pure-play investment company without wholly owned subsidiaries." As a result, two of the main holdings Modin and Nordic Hotels were listed in spring 1996 and two other significant holdings a couple of years later. In January 1999, the board and a new management – the CEO Jim Svenson – presented a new strategy where the idea of a pure portfolio management company was abandoned. Instead the idea would be that Niul will be a listed private equity company with the mission to create:

> The highest possible return over time through professional, active and responsible exercise of its ownership role in unlisted, medium-sized to large Nordic companies. Added value is to be created in connection with acquisition, development and divestment of companies (http://www.Niul.se).

In 2009, the family controlled Niul through direct individual ownership and through the Lindskog Foundations. Two family members from the fifth generation serve on the board; Tom Lindskog and Mats Lindskog. Mats Lindskog was a CEO for Dahl for 14 years. Niul bought Dahl in the 1970s and sold it in 2004. There are a nonfamily CEO, Jim Svenson, since 1999 and a nonfamily chairman, Max Bergman, board member since 1994 and chairman since 1998. There are no other family members working in the company. The majority of board members are nonfamily.

The main reason to take Niul public in the 1950s was to ease tax pressures, and to facilitate for future generational successions within the family. The listing gave the family liquid assets. Being public also creates flexibility for the owners which can be practical, especially for larger families even if the firm does not need the access to capital that the market offers. Family members who wanted to leave the ownership have been paid market price for their stocks; this decreased the tensions within the family, according to one family member. The ability to create incentive programs for management and staff was also considered important, especially in the kind of industry where Niul is active. Further, the public nature gives a good measure on how the firm performs.

During the first years as a listed company, the demands on the firm from the market and minority owners were much lower than they are today. In general, Bengt Lindskog – one of two strong family members in the second generation – never perceived problems with being a listed family control, as long as information is direct, straight, and honest and the firm performs well. He says: "Those who don't like us can sell their shares, that is why the stock exchange exists. Sometimes we forget that it's actually possible to sell shares."

In the late 1990s, Niul faced some difficult times. Tensions and divergences of how Niul should be directed led to a change in CEO and chairman. The CEO Niclas Nilsson left, in particular, because of some actions taken by the chairman Karl Lindskog that were not appreciated by some family members, board members, and minority owners. One interviewee explains: "Karl was right in his analysis, but the way he acted was not acceptable."

Some interviewees argue that the reason why problems emerged between the chairman Karl Lindskog and the CEO Niclas Nilsson had to do with more than personal tensions. Rather, the root of the problem was related to the circumstances of doing business through a listed investment company. In Sweden market actors have for 50–60 years talked about investment company discounts. This basically means that the value of the shares within the investment company's portfolio is lower than these shares individually in the market. This is thus a problem for companies who invest completely, or partly, in other listed companies that individuals can invest directly in. At the same time, the beneficial tax situation for investment companies created opportunities. Nilsson's solution to the problem was positive for minor shareholders, but perhaps less so for the majority family owners who wanted the firm to stay under the family's control.

A cornerstone in Nilsson's strategy was to show that the family did not have vested interests and that their agenda directed the development of the company and its investments. Therefore, the idea guiding Janson was to create an automatic redemption program that meant that as soon as the discount was above a certain level, 10% of the firm's shares were redeemed automatically. This program led some actors on the financial market to profit on the shares through arbitrage between a basic portfolio and Niul's portfolio, and thus speculate on the discount. However, the big event was when it came to public knowledge that the chairman, Karl Lindskog (Bengt's brother), who had participated in approving the new strategy of Niul implemented by Nilsson started to buy large amounts of shares in Niul. The reason was

that he wanted to influence the share price so it would not fall under the level where the firm's redemption program would be activated.

Lindskog had thus re-evaluated his position on Niul's strategy, most probably because he was afraid that the redemption program would eventually lead to the family losing Niul and eventually disappearing. Realizing that Lindskog had purchased the shares to affect their price, Nilsson decided to resign from his position as CEO and Lindskog resigned as chairman shortly after. One newspaper argued (DN260798): "Lindskog went too far. He should have realized the loss of trust in Niul his actions would cause. The whole market thought that the chairperson and the CEO were in agreement."

A family member says that Karl Lindskog saved Niul as a family-controlled business through his actions. If he had not acted, Niul would have disappeared and been lost for the family. The strategy implemented by Nilsson meant that if the firm did not manage to reach a certain performance level, its shares would be distributed to all shareholders. However, the family was not interested in this as they wanted to keep control of Niul. The problem was that the information about what he did was not appropriately distributed to all actors on the market. A family member adds:

> In terms of the core of the issue, he was right. Because of earlier disagreements within the family and the fact that the board did not work as professionally as it does today, there was an unequal power balance in the firm. The CEO had managed to secure too much power and he outmaneuvered people who didn't agree with him. Eventually my father thought that enough was enough, but perhaps he acted too fast and without considering all the consequences of his actions. I think this is the event that changed Niul from being a smaller, old family governed business to a very professionally governed business where the family still controls.

After Karl Lindskog's actions, several actors lost confidence in Niul as a publicly listed company and so its reputation had to be rebuilt. As a result both the CEO Nilsson and the chairman Lindskog were forced to leave the firm and a new board was formed where nonfamily members took a much stronger position. In the following section, we present the theoretical framework we use to interpret Niul as a hybrid-identity organization.

15.3 Organizational Identity and Hybrid Identity

Research shows that family-controlled firms are still important on stock exchanges around the globe. As we know that most firms are family firms, we do not know a lot about differences between family firms. This is often summarized under the term of heterogeneity of the population of family firms (Melin and Nordqvist 2007; Sharma and Nordqvist 2007). Therefore, we look into what makes family-controlled firms listed on the stock market different. We suggest that this is due to their hybrid identity which influences the self-understanding of the business and steers their governance. We empirically illustrate this with the presented case. Recently, Zellweger et al. (2010) suggested that organizational identity could be a source of

familiness in family-controlled firms leading to potential competitive advantages. Organizational identity focuses on the organization as such which allows the problem to be overcome over the different spheres or systems.

Albert and Whetten (1985) in their seminal work conceptualized an organization's identity as what is claimed to be central, enduring, and distinctive. Moreover, they suggest that not every organization has a single and unanimously shared identity but rather a dual or multiple identity. A special case of that is a so-called hybrid identity which consists of parts that would not normally be expected to go together. They refer to a more utilitarian value system like a business and a normative value system, like a university.

Furthermore, Albert and Whetten (1985) suggest that utilitarian organizations are typically managed by information whereas normative organizations are managed more by ideology (p. 107). This idea has been developed and many empirical examples of such hybrid identities have been found in the literature. Albert and Whetten (1985) have suggested that organizations will change their identity throughout their life cycle. They have suggested that a normative identity may change to a more utilitarian identity, e.g., a church due to increasing size and time will become more like a business. One of the reasons for this is that founders may leave the organization or the success of the organization leads to challenges which can only be overcome by implementing rules and routines of a formal organization. The listing of a business on the stock market introduces a more utilitarian element to the company. As suggested by Albert and Whetten (1985), it is easier to add another identity to an organization than to delete an existing one.

In addition, Albert and Adams (2002) coined the term "sustainable hybrids." In those cases seemingly conflicting identities can become counterbalancing over time. Albert and Adams suggests three aspects that characterize such hybrids, e.g., the multiple identities are perceived to be inviolate, incompatible, and indispensable (Albert and Adams 2002, p. 35). Inviolate means that nothing about the underlying identities can be compromised, incompatible means that conflict is inevitable and indispensible means that none of the multiple identities can be eliminated (Ibid). Typically, those multiple identities can exist because the identities are not permanently aligned. Albert and Adams (2002) argue that the different facets of identity sustain the hybrid due to its functions and virtues. Thus the hybrid identity can be sustainable over time. This is an important aspect as it somehow contradicts multiple and hybrid identities as the main source of conflict (Glynn 2000; Golden-Biddle and Rao 1997; Pratt and Rafaeli 1997). Moreover, Pratt and Foreman (2000) have argued that multiple identities can be managed which may help to overcome or even avoid conflicts.

15.4 Family Firms as Hybrid-Identity Organizations

Shepherd and Haynie (2009) introduced the concept of a meta-identity which is typical for family businesses (Shepherd and Haynie 2009). Drawing on social identity theory and identity control theory, they argue that the family business

meta-identity "represents a higher-level identity that serves to inform 'who we are as a family' and 'who we are as a business' in a way that represents the intersections of these sometimes competing identities, thus defining 'who we are as a family business'" (Shepherd and Haynie 2009). Following their main argument, there are potential conflicts arising between the family identity and the business identity which will lead the family business to formulate a meta-identity which combines those two identities and allows for conflict resolution.

Moreover, Shepherd and Haynie (2009) suggest that such a meta-identity can be a capability of the family business. Shepherd and Haynie's (2009) theoretical model still remains to be tested empirically. Moreover, they do not touch on the link to the organization's identity. The meta-identity prescribes a hierarchy where the meta-identity controls the lower level identities of the family and the business. Taking a family business as an organization the concept of organizational identity and more specifically hybrid identity seems more suitable.

Following Albert and Adams (2002), hybrid organizational identities can also be sustainable over time and the source for competitive advantages. As mentioned above, an organization can have multiple identities and, unlike humans, the organization will not automatically be schizophrenic. Already Gioia (1998) noted that multiple identities on the organizational level could be the difference between individuals and organizations which could entail complicated and multifaceted identities referring to different domains without causing the problems they would for an individual.

More recently, Zellweger et al. (2010) introduced organizational identity as a complementing dimension of familiness. Following Sundaramurthy and Kreiner (2008), a family identity is unique and will therefore be a potential strength of a family firm. However, as Zellweger et al. (2010) correctly point out a family firm identity does not necessarily distinguish it from another family firm also emphasizing its family identity. As Blombäck (2010) has suggested, being a family firm can be seen as a secondary brand association. This implies a need for a family firm to be something more than just a family firm. In other words, a family business is not only a family business but a family business in the publishing industry or a family business in the beverage industry.[1]

The idea of hybrids has not only developed in the identity literature. For instance, Borys and Jemison (1989) define hybrids as "…organizational arrangements that use resources and/or governance structures from more than one existing organization" (p. 235). The authors had joint ventures and the like in mind. However, it also fits the logic of family firms, since the family and the firm can be viewed as different organizations, or institutions that in the dominant economic logics are held separate. An indication for this is the discussion on family vs. business first which exactly describes the seeming incompatibility of the underlying logic of family and business.

[1] Spendrups a Swedish beverage company can be seen as an example: http://www.spendrups.se/lib/SubPage.aspx?id=334.

According to Ward (1987), because family and business do not go together one has to come first. Following the idea that there are hybrid arrangements found in family firms, this must have implications for the governance of those firms. Moreover, Golden-Biddle and Rao (1997) have found that a hybrid organizational identity for instance, shapes the roles of the board members.

Literature indicates that the foundation of a company is critical to the formation of its identity (Albert and Whetten 1985) as well as its overall value system (Kimberly and Bouchikhi 1995; Schein 2004). Thus it is relevant if the firm is founded as a family business. Also Arregle et al. (2007) suggest that in a family firm the family has an influence on the organization's identity by transmitting values norms, and narratives. They further suggest that this is due to their long-lasting positions within the business. Following Scott and Lane (2000) an organization's identity is based on what managers and stakeholders believe to be central, enduring, and distinctive about the organization. In line with Arregle et al. (2007) it can be assumed that the most important and influential stakeholder in a family business is the family who may also be the owner and manager of the firm. In the following, we show how our case is a hybrid-identity organization and how it deals with this.

15.5 Discussion

The Niul brand as a family business is today embodied by two major physical family owners in the cousins Tom Lindskog (Eric's son) and Mats Lindskog (Karl's son) in addition to the two family foundations, which represent a somewhat more anonymous ownership. A family member explains:

> We're a kind of hybrid and we have to accept this. Our strength is that we're seen as a family business even if we work with private equity where other family businesses often become our targets for investment. We can say that we have similar way of thinking as them. Being a family business means safety for them. We actively use this as a positive side of us. We know when we can emphasize that we have strong family influence, and when it should be downplayed.

This points toward what Albert and Adams (2002) have coined "sustainable hybrids" because awareness of the duality or hybrid character is necessary and a condition to make it work. Another family member explains that there are psychological reasons why it makes sense to communicate that Niul is a family business. It has a connotation of entrepreneurship rather than finance, which dominates most other private equity firms:

> It's all about how people behave and how the creative processes works. People like to identify with other people, rather than with companies. Well, the Lindskog people are good, they think. There is value in the brand thanks to a personification that we shall not underestimate. It's all about branding. Niul may have a good brand as owners, and in the end this means that the Lindskog family has a brand as good owners. Our CEO uses this very cleverly. It can build trust.

He adds, however, that it is important to make sure that the company is not perceived as too much of a family business:

> As a listed company there are more eyes on you. As a board member you don't just represent yourself, but all the shareholders. The markets today are effective and transparent, which means that the ownership and board work in public family businesses have professionalized. An individually strong person who takes all decisions by himself, like in the old patriarchic system would be an enormous disadvantage today. Decision-making cannot occur that way. Today people are working together and value is formed in creative processes, although some old patriarchs may still be out there.

Thus the family business brand is a rather secondary brand association (Blombäck 2010). As one respondent suggests "Now being a listed company causes a lot of problems for the top management team. They must write reports, and comply with codes that are absurd." Thus, being listed adds a new dimension to the organization, needing to respond to the more formal requirements of the stock market. This is something that impacts the entire organization and adds a utilitarian aspect to its identity. One respondent brings this to point when saying:

> Private family firms can be as long-term oriented as they want and the family can dominate as much as they want. They are not asked to explain what they do. A publicly listed family business has the same pressure as any public firm and they are accountable for their action. The time horizon becomes a bit different. The family cannot dominate as much.

The idea of being a family firm where the family has the final word and takes the decisions does not work any longer on the stock market. The normative character and identity of family seemingly conflicts with the rules of being a publicly listed firm. The normative leadership of a family does not seem to work with the expectations from the stock market where a different leadership is needed, based on information. These seemingly conflicting identity characteristics make identity a salient issue as Albert and Whetten (1985) suggested. Listing a company on the stock market is a change in collective status which will put identity on the agenda.

However, Niul was listed in the 1950s and during that time the motivation was tax purposes. It seems that then it did not have such a high impact on the business itself. Further, the decision to be a "pure-play investment company without wholly owned subsidiaries" was a major decision which changed the identity of Niul. The decision could only be taken with the consent of the family as the main owner and stakeholder (Bouchikhi and Kimberly 2003). Divesting Modin and Nordic Hotels was a change in the collective status as hypothesized by Albert and Whetten (1985). By 2001, the strategy to be a private equity company was realized and the remaining shareholdings of listed companies were sold by 2002 and 2004, respectively.

Albert and Whetten (1985) argue that the transformation from a single identity to a hybrid identity might take time. The seemingly conflicting identities could exist unnoticed and only become apparent in certain events. A reason for this could be the organizational structure that separates the seeming conflicting parts.

The appointment of the new CEO – Jim Svenson – led to a new strategy and marked the beginning of a new era. The triggering event was the automatic redemption program with which the old CEO Janson intended to overcome the discount and to show that the family did not have a special role. Yet, the chairman of the

board and family member thwarted this plan and did not let it be executed to avoid the family losing control. He adds:

> Because of earlier disagreements within the family and the fact that the board did not work as professionally as it does today, there was an unequal power balance in the firm. The CEO had managed to secure too much power and he outmaneuvered people who didn't agree with him. Eventually my father thought that enough was enough, but perhaps he acted too fast and without considering all the consequences of his actions.

So the conflict became apparent and was solved by the retreatment of the chairman of the board. It also showed the hybrid character of being a family and listed business. The respondent who is also a family member addresses this directly: "I think this is the event that changed Niul from being a smaller, old family governed business to a very professionally governed business where the family still controls."

Thus, the conflict also required the parties involved, and especially the family, to accept the hybrid identity of the organization and the fact that they are no longer solely in charge and can do as they please. This is underlined by one other board member:

> Niul is both a family business and a non-family business. To just say it's a family business is misleading. We're very careful to follow all the rules and codes at the stock exchange, we act as a public company and the board is not dominated by the family.

This comment illustrates very well the complexity of being a hybrid-identity organization. It requires both sides to compromise. The family can no longer decide everything as the others need to listen to the family. A nonfamily board member says:

> It's a mix, because without a doubt there is a family that has significant influence and that can decide in difficult situations. Their influence is exercised carefully today, but everybody in the board understands that they need to listen if for instance Mats says something. At the same time, the board is competent and the members are not afraid of saying what they think. It's a very lively debate in the board. The family has decided to work through a strong chairperson and board. The family is wise, they're not afraid of listening to others.

This is also what Albert and Whetten (1985) mention that hybrid-identity organizations need to find a way to deal with the duality and set the priorities which will be potentially conflicting between the normative and utilitarian identity. This is similar to what Glynn (2000) found in her study. She suggests that different stakeholders may question the resource allocation based on the organization's identity. The board of directors is a suitable arena. In the Niul case, the CEO can be seen as representing the utilitarian identity of the stock market as he is not a member of the owning family. However, the family as the incorporation of the normative identity is represented in the board as well with the two Lindskog cousins. Thus, the question is whether it is a holographic or ideographic identity. Statements from several respondents indicate that it is rather a holographic multiple identity. A family member explains:

> Family ownership is positive as long as the family stays together and the ownership is unified and clear. We have a group of owners, which actually is large enough to make decisions. As manager you always have someone to ask for advice. This is a main difference compared to institutional owners. The owner is clear, identifiable and personified by one or more people. A difference between family owners is the extent to which you just take financial or operative responsibility.

He emphasizes the importance of the family as face and representatives of the firm even though they are not the sole owners any more. As the family grows and generational shifts go along, it becomes also a question of sustained ownership. The family member continues:

> If you've had a firm for many generations the ownership becomes very scattered and if you cannot gather shares in one or two pair of hands it may become complicated. Another difference is to what extent the family is involved in historical origin of the business. We've left our core and roots. We act more as owners and we think it's exciting. A well run business can keep a family together. It gives identity.

This identity giving as mentioned by the respondent is in line with what Albert and Whetten (1985) describe for hybrid identities and especially normative identities relying on leader figures who symbolize the normative identity. Having two family members on the board means that there is a notable family influence in the board even if it is less visible than before. Furthermore, the family still has a strong impact on the selection of board members through their presence in the nomination committee. The new CEO describes how he interacts with the two family representatives in the board:

> I have contact with PO and Tom in strategic issues, but not so often in-between the board meetings. The board is the arena where the owners shall speak if they want. The strategic change I introduced was very anchored among board members and representatives from the owners, including those outside the family. I speak with the chairperson several times a week and it's very frank and open, which is natural if you have a good relationship with your chairperson.

In general, the role of the board is seen as being responsible for the strategy, including a continuous oversight of the strategy and its implementation. Evaluation and analysis of possible targets for investments is also within the realm of the board's work. The board meets often since it also serves as an investment committee. This means that the board members know each other well and that they have to spend quite a lot of time on the Niul board work. A board member explains:

> The board members do not represent specific interests. We try to form a balanced board where the people represent themselves. The family members represent the large ownership held by Lindskog at the same time as they also represent themselves. If a decision is very tricky with clear ownership dimensions, they check with the foundations.

The board work was particularly changed from the fourth to the fifth generation. Now, the board is described as very qualified and professional. The CEO says: "It's rarely expressed that it's a family business. But of course, sometimes the dimension is there." This illustrates very well the hybrid identity. It also confirms Golden-Biddle and Rao's (1997) described role as the board as an elite team that can dissolve conflicts resulting from the hybrid identity.

Some family members are active in selling and buying shares in Niul, although the foundations are fixed owners. This does not mean that there is currently a strong power concentration. The CEO explains:

> They've taken a step back. Lindskog are not as visible anymore. I invite the fourth and fifth generation of the family twice a year, to the half year report, and the annual report. The sixth

> generation already owns, but they are too young. About 40–50 people are invited, and they are active as they attend these meetings. There are also about 31,000 non-family owners which makes it impossible for me to meet all of them. Tom and Mats Lindskog are cousins and the family members on the board. They belong to two different branches, but they've promised that if they disagree, they will discuss this outside the boardroom. Their disagreements should not affect the board work. So far they have managed this very well.

Although the two family members are seen as representatives for the family and the foundations, no board member has felt that they have tried to act on their ownership to drive a strategic issue in a specific direction. This illustrates that not every multiple-identities organization has to be conflict ridden. Moreover, it also indicates that the nonfamily members accept the hybrid character which indicates a holographic hybrid identity (Albert and Whetten 1985). This of course does not mean that everybody has to agree. The chairperson explains:

> The mandate I serve on is for the company's best. It's been like that since Karl and Bengt asked me to join the board. This means trying to make sure that the firm develops in a positive direction for all shareholders. There are, of course, many other interests to take into account as well. We have all the smaller owners and the employees. We have a dialogue with the smaller shareholders during the Annual Meeting, and during the release of our quarterly reports. We're also active in other kind of meetings, savers' meetings etc.

A nonfamily board member with experience from other listed family firms explains that she sometimes finds herself in a situation where her view is not the same as the family's:

> Quite often I feel that the family wants to push for an issue in a specific direction, but I think differently. It's more like that in another public family business in which I serve than in Niul. I must say what I think otherwise I don't deserve the remuneration I receive. I'm an advisor rather than a controller.

There are positive and negative sides of being a listed firm, but Niul has never really considered leaving the stock exchange. There have been discussions regarding the value of being a listed company in comparison with being private. The conclusion has always been that the advantages for both the family and firm are bigger than the disadvantages. Buying out the firm from the stock exchange was an alternative in 1998. They made calculations, but the option was never really seriously considered. A family member elaborates:

> Family ownership is positive as long as the family stays together and the ownership is unified and clear. We have a group of owners, which is large enough to make decisions. As manager you always have someone to ask for advice. This is a main difference compared to institutional owners. The owner is clear, identifiable and personified by one or more people. A difference between family owners is the extent to which you just take financial or operative responsibility. If you've had a firm for many generations the ownership becomes very scattered and if you cannot gather shares in one or two pairs of hands it may become complicated. Another difference is to what extent the family is involved in the historical origin of the business. We've left our core and roots. We act more as owners and we think it's exciting. A well run business can keep a family together. It gives identity.

This comment illustrates what Stinchcombe (1965) has called imprinting. Likewise Schein (1983) has argued that founders have an impact on an organization's

culture. Stinchcombe (1965) argued for the importance of the social structure which will be incorporated in a newly founded organization. As the period of foundation is already long gone, the entering of the stock market may be considered a second foundation as it caused a fundamental change in collective status (Albert and Whetten 1985). Therefore, the importance of founding members for the organization is equally relevant as argued by Schein (1983). Moreover, Tagiuri and Davis (1996) have argued for the importance of founders and families for the identity of the business. One family member argues that the most important negative side with being public is the focus on quarterly reports:

> How you present your result and your development is so important because it determines the share price and thus how happy the many shareholders are. Our dilemma as a family business is that every time there is discussion about a new CEO it's more difficult with many shareholders. There is uncertainty when you don't know what's happening. This is what happened to us in 1998–1999, before we had time to communicate the new strategy. In a company like this, it's not just the share price that determines how we act. This is just one parameter we consider. I think all Lindskog people think the same, that in 10, 20 or 50 years the family should still own this. Hopefully, there is a new Lindskog running this. We can resist the problems caused by a falling share price. Our principle is not to change CEO often. This is an integral part of our owner perspective.

This comment illustrates that the family is aware of the hybrid character and also underlines the advantage it gives to the firm. Due to the family control, they can escape some of the disadvantages of being listed and still focus on a more long-term orientation which is typical for family firms. The comments from nonfamily board members express very well that the family dimension is still there and is part of the understanding of the organization. Therefore, the hybrid character also remains in the fifth generation. In addition, it can be interpreted that there is a potential conflict of interest for board members. Family representatives may overemphasize the family dimension whereas nonfamily members may see this as inappropriate. The long history of the Lindskog family and Niul is, however, still present but not so much in the everyday work as a family member explains:

> The history is present mostly when we have an anniversary. For instance, when we celebrated 50 years as a public firm or the Lindskog family's 150th anniversary as a business family. This type of historical look back, but we're not sentimental. The really successful strategy which has rewarded us as a public firm is the strategy created in 1999–2000. It's not older than that.

Another board member says:

> There is a tradition and a legacy in Niul. The spirits of Karl and Bengt are there, and they will be in the future. The family and the firm have been capable of adjusting according to changing circumstances. This is a family who has managed to reinvent themselves a number of times. Niul is an old company, but if you look at where Niul is and has been you see they have an extraordinary capability to leave a business idea when it hasn't been sustainable and create something new that is profitable.

Figure 15.1 illustrates the development of Niul's identity over time. Starting as a family-controlled firm in the nineteenth century by the Lindskog family its identity was clearly linked to the family. As Albert and Whetten (1985) and Schein (1983)

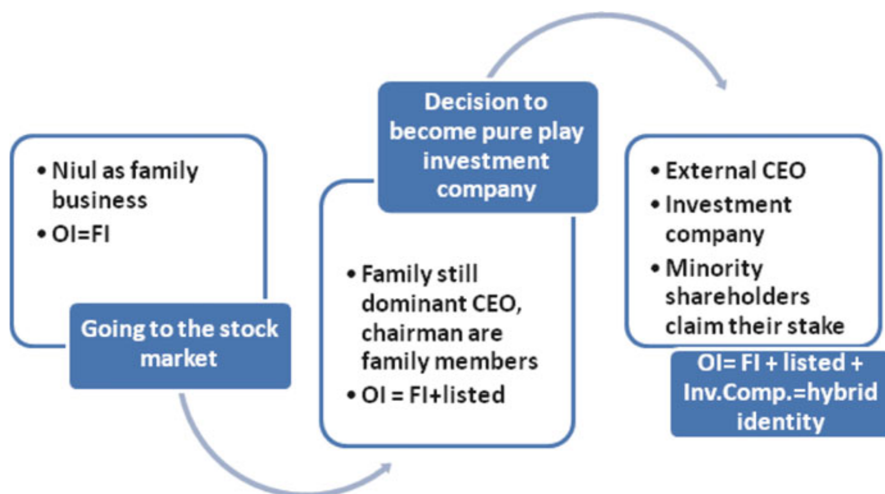

Fig. 15.1 Niul development toward a hybrid identity

have suggested, the founders do have an important impact on the business. Stinchcombe (1965) even claimed that founders imprint their personality and value system on the business. Seemingly, the influence of the founding family is also still present in Niul. Nevertheless, as suggested by some interviewees, it does not prevent Niul from changing strategic directions and going from being an investment company to a private equity company.

It is also important to notice that Niul's identity did not change immediately after entering the stock market. As the family was still prominent with a CEO and chairmen of the board, the family identity was still the most central aspect of the organizational identity. Due to the difficult situation in the beginning of the 1990s, the identity question again became salient (Albert and Whetten 1985). From the case it can be seen that the family business identity is not lost with going public. Rather the opposite, when becoming a private equity firm it helps to also be a family firm with certain clients and not just a listed firm. This duality helps to address different audiences. However, it may cause some internal conflicts.

15.6 Implications for Family Business Research

The concept of organizational identity has recently been introduced into the family business research context (Shepherd and Haynie 2009; Sundaramurthy and Kreiner 2008; Zellweger et al. 2010). Even though Tagiuri and Davis (1996) have already mentioned the influence of the family on a business identity so far, there is a lack of empirical studies that investigate the concept. Moreover, we show how the concept of a hybrid organizational identity helps to understand certain issues. As we have

seen there are potential conflicts of commitment which are based on different understandings of the organizational hybrid identity. Following Golden-Biddle and Rao (1997), these internally generated identity conflicts are as important as external identity threats which may question the status of the organization. However, even though Golden-Biddle and Rao (1997) have suggested that internal conflicts can be solved by internal elite teams to restore the identity this was not an option in this case. The family, as well as nonfamily members, is aware of the hybrid identity and does not perceive it as a family firm only. Rather, being perceived as a family business helps the main business as a private equity company. In publicly listed firms, such conflicts become an external issue much quicker. In this case, this was only relevant when the external CEO introduced a redemption program which could have made the family lose control of the business. After the CEO stepped down, the chairman also had to leave but it did not mean the end of the hybrid identity and the family. Rather, it ensured the continuity of the hybrid identity of Niul.

Zellweger et al. (2010) suggested that a family firm's identity is not per se a positive thing. It might also lead to a negative influence of the family on the business. In the case of Niul, being seen as a family business is something that helps them in their core business as a private equity company. However, when the family was about to lose control of the business, by the chairman buying shares of the company, this opposed the official doctrine of the external CEO who claimed that there is no special treatment of the family.

We agree with Zellweger et al. (2010) that organizational identity is a useful framework that helps to understand the concept of familiness and the distinctive character it gives to family firms. Yet, we suggest that viewing family firms as hybrid-identity organizations will be more suitable. The hybrid character means that there is another dimension to the identity than just the family identity. More importantly, the hybrid identity of Niul does not only entail the family dimension which therefore may be a balancing aspect. Of course, the family identity gives a potential advantage due to its uniqueness (Sundaramurthy and Kreiner 2008). However, such a hybrid family business identity is possibly even more advantageous as it combines the uniqueness of the family identity with components outside the family. This also makes it potentially more viable and resistant to the dark side of family influence (Zellweger et al. 2010). Moreover, our case shows that a pure family identity is not possible and not wanted as it also has negative connotations to the public.

For the management of a firm with a hybrid identity, it is important to be aware that it can be managed (Pratt and Foreman 2000). Still, relevant stakeholders have to be considered and in a family business the family is a decisive stakeholder (Zellweger and Nason 2008). A change of identity against the will of the family seems very difficult if not impossible (Bouchikhi and Kimberly 2003). In a holographic hybrid-identity organization, the management has to be aware that the family business dimension is not only anchored in the family members but also in nonfamily members as, for instance, in our case.

Therefore, we propose to view family firms as hybrid-identity firms. Our case is a family firm that is listed. Thus, it becomes more evident that there is another logic besides the family. Yet, following Blombäck (2010) a family business can be

considered as a secondary brand association. It is more likely that the hybrid identity will also entail aspects of, for instance, industry or products. Moreover, in the family business literature, the idea that family and business are separate systems is popular and viewing them as hybrid-identity organizations helps to combine the two systems into the organization. It is important to acknowledge that an organization is family controlled *and* listed on the stock exchange.

15.7 Implications for Hybrid Organizational Identity

Shepherd and Haynie (2009) have suggested a meta-identity for a family business as a combination of family identity and business identity. Our case illustrates that such a meta-identity can be a hybrid identity. If it is a holographic hybrid identity, meaning that all members share the multiple or hybrid identities, it will be easier to manage the organization and the risk which can occur in ideographic hybrids is decreased. In an ideographic hybrid identity, where there are different units that share different identities, the risk for conflict is higher.

From the empirical case, it can be seen how a hybrid character develops over time. This is in line with what Albert and Whetten (1985) suggested, namely that the process from a single to a multiple-identity organization may take time. Niul was predominantly a family firm controlled by the Lindskog family. Starting as a wholesaling company for iron and iron products in the nineteenth century, over an investment company in the 1940s it became a private equity company in the twenty-first century. It seems that Niul does not fulfill the conditions of being a sustainable hybrid as suggested by Albert and Adams (2002). Accordingly, the hybrid identity needs to be inviolate, indispensable, and incompatible. Theoretically, it is possible to change the identity by leaving the stock exchange or by some other investor taking over Niul. As mentioned this was considered but disregarded. This would cause the family identity component to become obsolete and disappear. Moreover, Niul has shown several times that it divested key elements of its portfolio and changed the key business area in its history.

The issue of change of identity has been discussed at length in the literature. Therefore, we agree with Albert and Whetten (1985) that it is easier to add another identity to an already existing one as a complement which will lead to a hybrid identity. However, Albert and Adams (2002) also emphasize that in a hybrid-identity organization, the sustainability is due to the potentially incompatible identities not being permanently aligned over time. In the history of Niul as a listed company, there was only one situation where the incompatible identities conflicted so heavily that the chairman of the board and family patriarch as well as the nonfamily CEO had to leave. After their departure, Niul could rebuild the public's trust and continue as a family-controlled public firm. In addition, being seen as a family business is considered helpful in the private equity market. The firm uses the reputation and long-term orientation of its owner family to make good deals. Thus, the hybrid identity becomes if not sustainable at least essential. As Corley et al. (2006) propose,

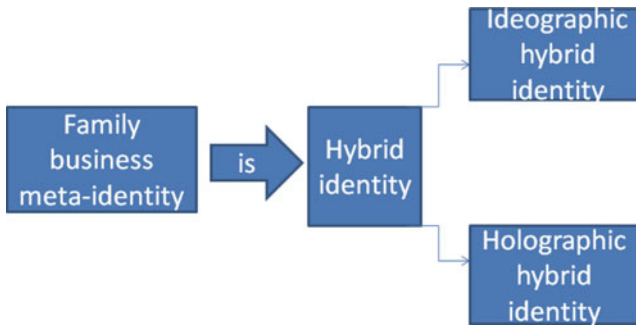

Fig. 15.2 Family business meta-identity and hybrid identity

it is possible that multiple identities do not conflict because the identities are only latently and not permanently aligned. This is also in line with Albert and Adams' (2002) suggestion for sustainable hybrid identities. The family business identity seems not to be aligned permanently in Niul as several interviewees mentioned. Moreover, it is used purposefully to attract, for instance, new objects for private equity. That it is not just a market tool can be seen by the general policy which is focused on long-term orientation and is agreed upon by family as well as nonfamily members.

A latent alignment of multiple identities will also make it more sustainable as the potentially conflicting identities will not clash at all times. The idea of Niul being a holographic hybrid-identity organization is also supported by the statements of several nonfamily members who see an advantage of being considered a family business for the private equity business. Being a private equity business and a family business gives Niul a rather unique standing. Therefore, the family identity can sustain in the business even though the family is only represented in the board with two members. The family board members are the visible and legitimate representatives of the heritage and value system of the Lindskog family.

Pratt and Foreman (2000) have suggested that multiple identities can be managed. This is something our case supports. However, as we have seen Niul has changed its identity. The family identity is the enduring part which functions as an anchor. The family identity can thus be described as something that can be combined and added on without identity conflicts necessarily occurring. The family identity is also anchored in nonfamily members.

Figure 15.2 illustrates that the family business meta-identity as suggested is a hybrid identity. It contains elements of the family and the business which are not expected to go together (Albert and Whetten 1985; Shepherd and Haynie 2009). Following Albert and Whetten (1985) a hybrid-identity organization can either be ideographic or holographic. The former means that there are different units who do not share the same identity whereas in the latter case the multiple identities are shared by all organizational members.

15.8 Concluding Remarks and Suggestions for Further Research

As suggested by Zellweger et al. (2010), having a family identity can be advantageous. We also show this empirically as an organization's identity cannot only rely on the family identity. Moreover, viewing a family firm as a hybrid identity means overcoming the limitations which occur when viewing it as two separate systems. Drawing on Shepherd and Haynie's (2009) idea of a family business meta-identity, we take an organizational identity perspective and conclude that such a meta-identity will be a hybrid identity. Hybrid identities can be of two different kinds and for a family business it appears important that the hybrid identity is also shared outside the family, i.e., that it is a holographic hybrid. As hybrid identities can be sustainable, it will help to resolve conflicts. This will be the case if the multiple identities of the hybrid are not permanently aligned.

Our study opens up further research in the area of organizational identity and family business. We encourage studies on the phenomenon of hybrid identities in different types of family businesses. Indeed, the concept of identity can be a very useful theoretical tool to better understand the heterogeneity of the family firm population. The case of the publicly listed family firm Niul served as an interesting case that allowed us to illustrate the character of the hybrid identity of family firms in particular. However, we think it is also necessary to study non-listed family firms. We suppose that the hybrid character in these family firms will be more ideographic as there is weaker external pressure on the family to deal with nonfamily-related issues and expectations. Future researchers could also look more closely into how organizational identity is formed over time in young and growing family firms. Is the family dimension of identity there from the start, or is the family dimension an identity aspect that is being included as the firm matures and perhaps more family members join the firm's operations or ownership?

Moreover, the board of directors has already been proven as a suitable arena for studying an organization's identity (Glynn 2000; Golden-Biddle and Rao 1997). It would be useful to study suggested conflicts of commitment in family board members with a holographic hybrid identity. Another interesting aspect is the impact of generational shifts on the hybrid identity of family firms.

The development of the hybrid identity over time is also interesting. Albert and Whetten (1985) suggested that it is easier to add a new identity to an already existing one. Therefore, it would be interesting to look at organizations where an identity-giving element disappears. Zellweger et al. (2010) have suggested that a family business identity can be with or without family involvement. Therefore, further research should elaborate the two different forms of a hybrid identity on the concept of familiness. Recently, Reay (2009) has suggested also considering the institutional environment of the family firm as it potentially has a high impact on the meta-identity or hybrid identity as we suggest. Finally, Zellweger et al. (Forthcoming) propose looking at and considering the role of reputation and impression management for the family firm identity. We can only agree and add that these questions can be elaborated further by considering the family business identity as a hybrid identity.

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Chapter 16
New Theoretical Perspectives on Family Business Entrepreneurial Behavior

Mary A. Barrett and Ken Moores

16.1 Background and Motivation

Family business leaders are often characterized as entrepreneurs (Aldrich and Cliff 2003; Shepherd and Haynie 2009). In attempting to understand the entrepreneurial thinking of family firm leaders, scholars have typically borrowed from the extant literature on entrepreneurship, which traditionally emphasizes characteristics of individual entrepreneurs such as their personalities, propensity for risk-taking, personal values, and so on.[1] However as Aldrich and Martinez (2003) point out, there are changes afoot in how entrepreneurship is being studied, including (a) a shift in theoretical emphasis from the characteristics of entrepreneurs as individuals to the consequences of their actions, (b) a deeper understanding of how entrepreneurs use knowledge, resources, and networks to construct and reconstruct firms, and (c) a more sophisticated taxonomy of environmental forces at different levels of analysis (population, community, and society) that affect entrepreneurship. In the spirit of these changes, we consider two recent perspectives relating to entrepreneurial reasoning and thinking and the subsequent behavior of entrepreneurs. The first of these, effectuation (e.g., Dew and Sarasvathy 2002; Sarasvathy 2001a, b, 2008) emphasizes a distinctive style of reasoning underlying the behavior of entrepreneurs. The second perspective, dynamic creation (Chiles et al. 2010), highlights how the imagining of

[1] Examples of such research in the family business arena include Craig and Lindsay (2002), Davis and Harveston (2000), Kellermanns et al. (2008), Koiranen (2002), Littunen and Hyrsky (2000), Lumpkin et al. (2009), Pistrui et al. (2001), Pistrui et al. (2000), Rauch et al. (2009), Zahra (2005), Zhao et al. (2010).

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entrepreneurs influences their firm-level and market-level behaviors. These perspectives have not been previously examined in the family firm context. We then integrate those aspects of these perspectives which focus on the processes entrepreneurs use to leverage their knowledge, resources, and networks. Importantly the concepts selected for integration are those which not only coincide with the descriptive realities of family firms but also offer potential to develop a more sophisticated understanding of the facilitative forces underpinning entrepreneurial behavior in family firms.

The chapter first reviews the concepts of effectuation and dynamic creation at a broad level. We progressively build the case for integration by first emphasizing the *prima facie* validity of combining specific theoretical elements of effectuation and dynamic creation. The value of integration is reinforced through reference to established research on the nature of family firm realities and then illustrated more specifically through a detailed family firm case. The chapter concludes with a formal expression of theoretical integration via a series of research propositions about entrepreneurial behavior in family firms.

16.2 Effectual Reasoning and Entrepreneurial Behavior

Entrepreneurial behavior as a problem-solving activity has conventionally been viewed through "causal reasoning" lenses (Sarasvathy 2001a, b, 2008). Causal rationality suggests the entrepreneur begins with a pre-determined goal and assembles a specific means, seeking to identify the optimal path to achieve the given goals (Sarasvathy 2008, p. 16). Effectual reasoning, as described by Sarasvathy (2008, pp. 16–39), inverts causal reasoning. Rather than beginning with a specific goal, entrepreneurs begin with a given set of means and allow contingent goals to emerge over time from their varied imaginations and the diverse aspirations of people they interact with. This means there is a fundamental difference between the conventional view of entrepreneurs as people who *discover* and then *exploit* opportunities, and effectual entrepreneurs who *fabricate* opportunities from the mundane realities of their lives and value systems, limiting their search and analysis to taking one step at a time.

Furthermore, Sarasvathy (2008) has assembled empirical evidence for this alternative view of entrepreneurial behavior. From entrepreneurs' verbal protocols of their search and analysis practices, she distilled three questions entrepreneurs ask about themselves, and the answers to which are the means with which all entrepreneurs begin. The questions are (1) who are they? – their tastes, traits, and abilities; (2) what do they know? – their education, training, expertise, and experience; and (3) whom do they know? – their social and professional networks. Using these means, entrepreneurs start to imagine and implement possible effects that can be created with them (Sarasvathy 2001a, b, 2008). Moreover entrepreneurs follow three coherent logics or principles which invert causal logic. They are (1) the strategic partnerships principle, (2) the affordable loss principle, and (3) the leveraging contingencies principle.

Strategic partnerships principle: Entrepreneurs build a few key partnerships rather than undertaking systematic competitive analyses. The essence of a successful strategic partnership is the induction of customers into them. The strategic partnerships

Table 16.1 Causal vs. effectual reasoning source (adapted from Sarasvathy 2008)

	Causal	Effectual
Problems of…	Decision	Design
Logics help us to…	Choose	Construct
Strategies are useful when		
Future is…	Predictable	Unpredictable
Goals are…	Clear	Unclear
Environment is…	Independent of our actions	Driven by human action
Actor begins with question/s	What should I do to achieve this particular effect?	What can I do with these means? What else can I do with them?

principle dovetails with the affordable loss principle to bring the entrepreneur's idea to market at really low levels of capital outlay.

Affordable loss principle: Entrepreneurs do not tie themselves to any pre-conceived or theorized "market" or strategic universe for their idea. Rather, they open themselves to surprises as to which market/s they will eventually end up building their business in or even which new markets they will end up creating.

Leveraging contingencies principle: The leveraging contingencies principle is the heart of entrepreneurial expertise – the ability to turn the unexpected into the profitable. As Sarasvathy (2001b, p. 6) explains it, "great entrepreneurial firms are products of their contingencies – their structure, culture, core competence, and endurance are all residuals of particular human beings striving to forge and fulfill particular aspirations through their interactions with the space, time and technologies they live with. It is not the contingencies themselves that shape the companies but rather how entrepreneurs leverage the contingencies."

Underlying all the principles of effectual reasoning is a coherent logic that rests on a fundamentally different assumption about the future from that of causal reasoning. Causal reasoning is based on the logic: "to the extent that we can predict the future we can control it." By contrast, effectual reasoning is based on the logic: "to the extent that we can control the future we do not need to predict it." Effectual reasoning and causal reasoning are thus inherently opposed, rather than occupying two ends of a spectrum. Nevertheless, this does not mean that effectual reasoning should replace causal reasoning. Rather, it is important to understand the types of problems and domains to which each type of reasoning is suited. Causal reasoning is useful when the decision problem requires a reasoned choice. Consequently, strategies based on causal reasoning are useful when the future appears predictable, with clear goals which are brought about in an environment independent of the actions of persons involved in the decision. In these circumstances, actors should begin their problem-solving process by asking "What should I do to achieve a particular effect?" Effectual reasoning, by contrast, deals with problems of design where the logic of a solution is based on constructing an outcome from materials at hand. Strategies based on effectuation are appropriate when the future is unpredictable, when goals are unclear or even non-existent, and where the environment is shaped by present and previous human action. In such circumstances, problem-solvers begin with the questions: "What can I do with these means?" and "What else can I do with them?" Table 16.1 summarizes the differences between causal and effectual reasoning.

16.3 Dynamic Creation and Entrepreneurial Behavior

Dynamic creation takes an integrative view of entrepreneurial behavior. According to Chiles et al. (2010) the dynamic creation approach focuses on novel products that result from entrepreneurs' divergent imaginations and drive far from equilibrium market processes to create a new market order. According to the dynamic creation perspective, the "entrepreneurial imagination" is an integral aspect of entrepreneurship. This special capacity is the "ability to conceive of something, seen only fragmentarily or superficially, as a complete, perfected, and integrated whole" (Chiles et al. 2010, p. 16). The entrepreneurial imagination focuses on three capacities for creative organizing, which require an interdisciplinary perspective to understand them fully: (a) *empathy* (from psychology), (b) *modularity* (from strategy and organization theory), and (c) *self-organization* (one element of complexity theory). There are two other important principles to how the entrepreneurial imagination works. First, it is essentially forward-looking rather than inspired by the past. That means it is not the same as analogy or pattern-making, rather it entails *imagination visualization* which is future focussed, not *memory visualization* which is past focussed. Second, entrepreneurial thinking and behaviors are always "decisions of the individual." This return to a focus on the individual seems to run counter to the dominant trends in entrepreneurship research mentioned at the outset. However, rather than relying on the idea that an individual's personality is special, the concept of the entrepreneurial imagination summarizes broad three imaginative capacities – empathy, modularity, and self-organizing – which transcend classic "personality" analyses to encompass modes of conceptualizing people, firms, and markets.

Empathy: Empathy helps entrepreneurs to invent and organize subjectively imagined novel ideas in their minds (Chiles et al. 2010). Many conceptions of entrepreneurship incorporate ideas of novelty or innovation. What separates the dynamic creation perspective from these others is how empathy actually *constrains* novelty. That is, creativity, novelty, and innovation are not the only requirements of the entrepreneurial imagination; it must be a *constrained* imagination because it must be appropriate for its target users, that is, it must have *value* for someone, such as future customers, or even customers in another culture. *Empathy* is what entrepreneurs use to imagine what will be of value to these customers. It needs genuine familiarity with the end user, otherwise there is a tendency towards conservatism in predicting the degree of novelty or risk in what end users will find attractive.

Modularity: In the dynamic creation view of entrepreneurship, modularity is an important aspect of how managers organize their firms' heterogeneous resources to respond to dynamic markets buffeted by continuous change, abrupt shifts, and unpredictable competition (Chiles et al. 2010, pp. 22–23). A module is "a unit whose structural elements are powerfully connected among themselves and relatively weakly connected to elements in other units," that is, they have "common interface specifications" (Chiles et al. 2010, p. 23). Because entrepreneurs imagine

and assemble the capital structure of their firms through their subjective expectations of the future (and interpretations of the past), that structure is not only novel but inherently heterogeneous. When inputs and demands are both heterogeneous, modularity can greatly enhance the ability to meet diverse demands with diverse system configurations (Schilling and Steensma 2001, p. 1153).

There are two broad aspects of modularity: *complementarity* and *substitutability*. Complementarity promotes stability within the firm. Complementary modularity can be of two types: *plan* complementarity of a module's resources within one firm, e.g., slack resources, or *structural* complementarity of resources within a module controlled by different firms which interact with each other, e.g., a network or a perceived shared culture which enables speedy decision-making between two firms. Substitutability, in contrast to complementarity, facilitates change within the firm. It refers to the capacity of individual elements within a firm's system to be removed and replaced with minimal disruption or loss of productivity (Schilling 2000; Pil and Cohen 2006) as for example in the case of multiple products, multiple divisions, strategic business units, or subsidiaries. Compiling complementary resources within each module reinforces organizational stability while compiling diverse substitutable modules promotes organizational flexibility (Chiles et al. 2010).

Self-organization: Self-ordering processes creatively organize competitive entrepreneurial markets by generating far-from-equilibrium market order. The entrepreneur has the capacity to imagine a "creative" order (i.e., to subjectively imagine novel solutions to future customers' problems) and to realize these solutions as products by recombining firms' resources even when the future is "under perpetual construction," with markets moving away from rather than towards equilibrium. The idea of self-organization does not assume that equilibrium is a somehow more desirable situation than disequilibrium, and that disequilibrium is inherently disordered. Rather, disequilibrium is taken as the normal state, and has its own form of order.

16.4 Theoretical Integration

Both the effectuation and dynamic creation perspectives are similar in that they are focussed on the actions of entrepreneurs and the consequences of these actions rather than what kind of personality or values they have. But there are also more fine-grained similarities between the principles of effectuation and the processes of dynamic creation. As noted previously, according to effectual reasoning, all entrepreneurs begin with three categories of means: Who they are, what they know, and whom they know? These align closely with the domains within dynamic creation processes, namely the entrepreneur's *mind* (for empathy), their *firm* (for modularity), and their *market* (for self-organizing) respectively. This mapping of the fundamental questions "effectuation" entrepreneurs ask onto the processes "dynamic creation" entrepreneurs follow, invites more specific exploration of links between: (a) the strategic partnerships principle in effectuation and the empathy process in

dynamic creation, (b) the affordable loss principle in effectuation and the modularity principle in dynamic creation, and (c) the leveraging contingencies principle in effectuation and the self-organizing principle in dynamic creation.

Strategic partnerships and empathy: In the effectuation perspective, strategic partnerships are the pre-commitments with customers that entrepreneurs secure for their idea or product. These customers fulfill a similar function to the customers with whom dynamic creation entrepreneurs exercise empathy: their use of the product provides feedback on the value of the idea or product and shapes what the entrepreneur does next. In both the effectuation and dynamic creation perspectives, the idea of *constrained creativity* is important. That is, novelty and innovation on their own are insufficient; there must be a customer to whom the novel idea or innovation is valuable.

Affordable loss and modularity: In the effectuation perspective, entrepreneurs do not need to try to predict the future because their decisions about what to produce and sell are based on what they can afford to lose. Instead of trying to assess likely returns in advance, they allow returns to emerge as a residual of the pre-commitments they previously established with key partners. Similarly, in the dynamic creation perspective entrepreneurs, in implementing their novel idea, combine and recombine the resources in their firms to meet new market needs. In so doing, however, they also ensure that any new idea or product which does not meet customer needs can be quickly changed or jettisoned without major loss.

Leveraging uncertainty and self-organizing: In the effectuation perspective, "opportunity tensions" arise from accumulating contingent information which emerges from the results of entrepreneurs' previous partnerships and actions. Entrepreneurs use this information to make subsequent "one step at a time" decisions which take advantage of the opportunity tensions. In a similar way, the dynamic creation perspective describes how entrepreneurs continually imagine and adapt their actions to meet ever-fluctuating markets and in so doing actually create their own new market order in response to permanent disequilibrium.

In pointing to these similarities, we do not suggest that the dynamic creation and effectuation perspectives can be reduced to the same idea in all respects. We note for example that understanding the three organizing processes of the dynamic creation perspective, empathy, modularity, and self-organizing, means appreciating that each of them is realized serially in successive domains: the mind of the entrepreneur, the structure of the entrepreneur's firm, and the market environment, respectively. The principles of effectuation, on the other hand, form a single, highly integrated problem-solving and decision-making protocol or logic which is not confined to a particular domain of realization. Nevertheless, and as we will illustrate in the next section, the value of integrating elements of the two perspectives is the way combining them enhances our understanding of entrepreneurial behavior, especially in the context of family firms.

Thus far we have advanced the case for integrating effectuation and dynamic creation by emphasizing the *prima facie* validity of combining their key theoretical

components. In this section, we reinforce the case for integration by drawing on descriptions of the nature of family firms which are consistent with these views of entrepreneurial reasoning and behavior.

16.5 Features of Family Firms

To present the features of family firms in an exhaustive fashion would be beyond the scope of this chapter. Fortunately, there is an influential stream of research over the last decade spearheaded by Miller and Le Breton-Miller that affords a convenient focus for a coherent and empirically well-supported account of the defining characteristics of family firms. It includes the well known and popular *Managing for the Long Run: Lessons in Competitive Advantage from Great Family Businesses* (Miller and Le Breton-Miller 2005). In this and many more empirically based publications, e.g., Le Breton-Miller and Miller (2005, 2006a, b, 2009), Le Breton-Miller et al. (2004), Miller and Le Breton-Miller (2003, 2005, 2006a, b, c, 2007), Miller et al. (2003, 2008, 2009, 2010a, b), the authors highlight four key priorities that figure in the longest-lasting, best performing family firms: Continuity, Community, Connection, and Command (the four Cs). The four Cs also resonate strongly with other ideas and concepts which are becoming paradigmatic within the evolving discipline of family business (see Moores 2009). One such core concept is the emerging concept of familiness as a unique bundle of resources (Habbershon and Williams 1999; Habbershon et al. 2003).

The four priorities of family firms as distilled from these various lines of research can be summarized as follows:

Continuity: Long-lived family firms commit to a mission over the long term: to do something important exceptionally well. Accordingly, members unite behind the goals of corporate health and continuity, and invest in the competencies needed to achieve the shared mission. Rather than acting as careerists, they exercise careful stewardship over the firm's resources. They encourage long executive apprenticeships and tenures, and avoid short-term tactics.

Community: To the same end, family firms build cohesive, clan-like teams based on strong values which family firms socialize staff into endorsing and supporting. Family firms are likely to pamper employees to elicit loyalty, initiative, and collaboration, rather than using rules and financial incentives to influence behavior.

Connection: Many great family firms nurture enduring, open-ended, mutually beneficial relationships with business partners, customers, and society, even when the demands imposed by these relationships greatly exceed the time span, scope, and potential of episodic market or contractual transactions.

Command: Family firm leaders need to be able to act independently – quickly and in original ways – often to renew or adapt the firm. They typically work with an empowered top team whose members, unlike in many non-family firms, are free of shareholder constraints and so can make fast decisions.

While these priorities may be present in many family firms, specific elements among them manifest as the basis for sustained competitive advantage in the better performing family firms. In a study of successful vs. struggling family firms, Miller and Le Breton-Miller (2005) isolated specific elements of the four Cs that most strongly differentiated outstanding family-controlled businesses. They were:

- *Connection*: staying close to the client
- *Community*: clarion values, assiduous selection and socialization, welfare state for employees, informality, initiative, and teamwork
- *Continuity*: thematic competency based strategies, focussed long-term investment
- *Command*: courageous and cohesive top team

These descriptive features emerging from long-lasting family firms that have been entrepreneurial over generations reinforce our three integrated elements of the effectuation and dynamic creation perspectives. Notwithstanding that elements of the four Cs relate to several of the core ideas of the effectuation and dynamic creation perspectives, here we discuss these two theoretical ideas in terms of the family firm characteristics to which their relationship is most salient.

Connection, Strategic Partnerships, and Empathy: Connection, or staying close to the client, is the practical manifestation of the strategic partnerships that "effectuation" entrepreneurs create. It equally describes the practice of empathy by which "dynamic creation" entrepreneurs test their novel ideas. Having a family firm background has long been noted for the next generation of entrepreneurs to become familiar with the general and personal disciplines needed for business (see Moores and Barrett 2002; Barrett and Moores 2009). These disciplines include understanding the necessity of making strategic partnerships which create opportunities for testing ideas against the "constraint" criterion of understanding what customers value and what their risk preferences are.

Community, Continuity, Affordable Loss, and Modularity: The community characteristic of enduring family firms coincides with the notions of affordable loss (effectuation) and modularity (dynamic creation) which enable entrepreneurial flexibility. The shared values associated with the community aspect of family firms promote this flexibility. As noted earlier, the internal bonding of clan-like teams promotes values of loyalty, initiative, and collaboration, which are conducive to entrepreneurial behavior. Because of these shared values, family firm entrepreneurs are more than usually able to deploy their resources in a flexible fashion, quickly reshuffling resources to implement novel ideas. Implementing ideas requires capital and family firm capital is often described as "patient." This patience refers to both the patience of investment (the deferring of decisions about when to exercise real options) and the patience of the expected returns from those investments. This of course equally coincides with the continuity characteristic associated with better performing family firms: thematic competency-based strategies, focussed long-term investment. The patience of investment enables the exploration of more real options while the patience of expected returns means that novel plans can be implemented without the

need to realize returns quickly. This tolerance for slow returns may even extend to a capacity for affordable loss if the initiative fails.

Moreover, should the new initiative in fact fail, the clan-like team structures of family firms protect firm members associated with the failed initiative. This does not always happen in non-family firms. As Baetjer (1998) suggests in a discussion of non-family entrepreneurial ventures, while entrepreneurs may wish to retain flexibility by designing independent, future-focused modules, employees are likely to try to minimize their personal risk by associating themselves with initiatives that they judge likely to succeed and to be integrated into the mainstream organization. Further, in line with real options reasoning, family firms also provide an environment which allows them to create more real options for their human resources when they engage in succession planning. This typically involves deliberative processes of career planning which not only have a long-term organizational dividend but also a personal return for the individual employee.

Command, Affordable Loss, and Modularity: The command characteristic of family firms means being able to act quickly and independently in original ways that can renew and adapt their firms. This also connects with the notion of modularity and affordable loss in the way it enhances the prospects for entrepreneurial behavior in family firms. Courageous and cohesive top teams in family firms can reshuffle resources and commit capital without the need for lengthy advance justifications to outsiders. This means they can often move faster than their competitors and pursue unorthodox strategies. This again highlights that the family firm context is conducive to entrepreneurial behavior because resources are deployed more quickly and losses if necessary can be tolerated for longer.

Command, Leveraging Contingencies, and Self-Organizing: This command characteristic of family firms is also consistent with how family firm entrepreneurs behave by quickly leveraging contingencies, differentiating their products from those of rivals to recreate opportunity tensions in self-organizing markets. Entrepreneurs respond to contingent information which flows from their relationships with customers and other stakeholders. However, the speed with which family firm entrepreneurs can make decisions means they are able to take advantage of evolving "opportunity tensions" more quickly than their competitors. The result is that family firm entrepreneurs speedily blend their plans and resources with market forces which are in constant flux.

Connection, Leveraging Contingencies, and Self-Organizing: We saw the importance of the connection characteristic of family firms when considering the concepts of empathy and strategic partnerships in developing novel ideas into products which meet future customer needs. The connection characteristic of successful family firms is also made more salient by the concepts of leveraging contingencies and self-organizing markets. Successful family firms' connection characteristic manifests itself in their high use of networks as a source of knowledge. This knowledge, or "bridging" social capital (Salvato and Melin 2008), is a source of opportunity. Over time, family firms' strategic partnerships create networks or path dependencies.

These in turn are the source of contingent information from which further novel opportunities arise. From a dynamic creation perspective, self-organizing involves "entrainment" or the capacity to make new sense of and synchronize the multiple rhythms created by fluctuating markets. Family firm networks, because they allow family firm entrepreneurs to synchronize the information flowing from their strategic partnerships, are an important element in how they manage the uncertainty arising from these constantly fluctuating markets.

Table 16.2 summarizes the integration of the principles of effectuation with the three organizing processes of dynamic creation, and the way this is reinforced by the realities of successful family firms.

The next section sets out a detailed case which we will use to further justify our theoretical integration of elements of effectual reasoning and dynamic creation within the context of family business entrepreneurship.

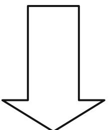
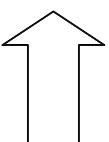
16.6 Illustrative Case: Hawkins Transport Pty Ltd

In 1921, Bartholomew and Rosina Hawkins laid the foundations of the Hawkins family group with the establishment of a fuel station in Ipswich, Qld, Australia. Hawkins Transport quickly evolved beyond the service station to become the first transport company to run in competition with the railway. It was able to run far more efficiently than the railway, but regulations protecting the railway restricted freight carriers from charging less than the railway. Consequently, Hawkins Transport enjoyed substantial profit margins and the business was very successful. Despite the early success of Hawkins Transport, its position deteriorated when Harold, the son of Bartholomew and Rosina, sold off the fuel station and struggled to maintain the financial position of the transport business. His premature death resulted in his son, Neville, taking over the family business in 1952 when he was 19 years old.

Hard work by Neville, his wife, Shirley, and over time their four children restored the business to its former profitable state. Complete reinvestment back into the business enabled Hawkins Transport to grow and commence interstate haulage. Then in 1971, Neville and Shirley began ferrying passengers and supplies to Moreton Island and the family began running the island's general store. Both divisions continued to grow.

Taking advantage of this growth, in the 1990s the Hawkins family group was able to diversify further. Adding to their north Queensland depot in Townsville, about 1,000 miles from their Brisbane base, they bought a transport company based in Tully, nearby in the banana growing precinct. The acquisition of a small farm in Tully saw the group become involved in growing bananas. This enabled the group's transport vehicles to return to Brisbane with paying loads. In 2005, the Hawkins family group diversified further by establishing Hawkins Fuels with a truck stop at the port of Brisbane. This is a retail outlet serving the needs of truck drivers – major stakeholders in the transport industry as a whole. It provides washing machines,

Table 16.2 Core concepts of effectuation and dynamic creation illuminated by family firm realities

	*Organizing processes of dynamic creation*	Empathy (from psychology)	Modularity (from organization theory)	Self-organizing (from complexity theory)
	Serial domains	Mind ⟶	Firm ⟶	Environment
	Core concepts of dynamic creation	Subjective mental constructions	Capital combinations and continual reshuffling	Plans, resources, and market forces which are constantly in flux Entrainment that synchronizes different rhythms
	Entrepreneurs	Gauge appropriateness of novel ideas and plans	Organize novel resource combinations when implementing plans	Generate opportunity tension that triggers the creation of market order within disequilibrium
	Family firm realities	**Connection** Staying close to customers fosters strategic partners and enables empathy Strategic partnerships build social capital through networks	**Community and continuity** Shared values enable entrepreneurial flexibility and protect employees associated with ventures which may fail Succession planning exercises create modular options with respect to their human resources **Command** Quick decision-making enables capacity to organize and reorganize resources more quickly than competitors	**Command** Quick decision-making enables quick responses to contingent information **Connection** Networks are a source of knowledge or "bridging" social capital Networks generate still more contingent information and opportunity tension
	*Entrepreneurs*	Secure pre-commitments from key stakeholders	Generate returns which are a residual of process of stakeholder acquisition	Take advantage of path dependencies and contingent information
	Core principles of effectuation	Strategic partnerships principle	Affordable loss principle	Leveraging contingencies principle
	Domains	Who entrepreneurs are	What entrepreneurs know	Whom entrepreneurs know

showers, internet access, as well as a lounge area and food facilities. In August 2007, another service was added with the opening of Port Wash, a truck, four-wheel drive, and car washing facility.

Currently, the family group consists of a range of diversified business, all with a link back to the family's transport origins. The organization employs over 200 people, including members of the third, fourth, and fifth generations. Hawkins Road Transport is the largest privately owned transport company operating in north Queensland and consists of a network of depots in Brisbane, Townsville, Mackay, Tully, and the Burdekin delta. The company owns a fleet of trucks and specializes in transporting fresh produce from north Queensland to Brisbane. Hawkins Road Transport also has a fuel and bulk liquid division and is a Shell and Caltex approved carrier. The Moreton Island operations have continued to expand from the humble beginnings of an 11-m vessel to a 58-m long, 16-m wide, fast catamaran that can carry 52 four-wheel drive vehicles and 400 passengers. As well as ferry services between Moreton Island and the mainland, the catamaran is used for evening river cruises for both corporate and private events. The group's local store on the island has expanded to include adventure day trips, four-wheel drive tours, and catered beach events.

Over the years, all four members of the fourth generation have worked in the business. John Hawkins, Neville and Shirley's only son, took over the transport business and opened the Townsville depot in the 1980s. However, John later exited the business to pursue his own business interests in the United States. Over the years the youngest daughter, Roz, gravitated to positions of leadership, culminating in her appointment as CEO in 1997. In 2006, with her sisters Kerry and Anne, she finalized a sibling buyout of the business from their parents.

16.7 Further Integration: Specific Case Realities

The realities of this specific family business map closely onto the theoretical integration we outlined above. Insights into this business are based on an extended interview the authors conducted with the CEO, Roz Shaw (née Hawkins), in early 2010. Roz provided an unstructured but broadly chronological account of the firm's development over 80 years with particular emphasis on the role of the third and fourth generations. Our core integrated concepts as discussed above are readily discernible in the everyday language of this family business entrepreneur (FBS). In particular, she highlighted the importance and effects of strategic partnerships and empathy, affordable loss and modularity, and leveraging contingencies and the entrepreneur's participation in self-organizing markets in ways that variously reflect the continuity, connection, community, and command priorities of long-lasting family firms. In this section, we use extracts from our interview to draw attention to our integrated concepts derived from the effectuation and dynamic creation perspectives.

16.7.1 Strategic Partnerships and Empathy

Pre-commitments from a number of key customers were crucial to how the form and nature of the services the Hawkins group provided evolved over time. Their continuity over four generations has been heavily influenced by their proclivity for focus on connection with customers. Hawkins customers provided feedback on services the firm provided that progressively shaped what the entrepreneurial family would do next. Looking at the firm's evolution over four generations reveals a capability to respond to customer feedback in ways that are central to the firm's definition of the services it provides. The initial opportunity to reap above-average rents in the protected environment of transport emerged from the firm's capacity to respond efficiently to customer needs. This capacity was reignited in the third and fourth generations and proved central to the evolving choice of services which configured the firm. A few trucks in Brisbane became refrigerated vans, a northern depot, bananas, and a truck stop, all progressively added in response to empathy with the needs of strategic partners inducted into the firm. Customer needs dictated areas of growth, not any conscious strategy.

> The business has been grown always. We give great service so people continue to give us work and then more people would hear about us and give us more work. It's never been about some conscious strategy to grow the business.

Nevertheless the firm grew.

> It did get beyond survival mode and actually John helped it do that. In the early days when he moved to Townsville he actually started the Townsville branch and that was a big increase in our business.

Interestingly, it was a single customer's needs that had caused this "big increase."

> […] it [the Townsville depot] actually did come from a customer that Dad had had – it actually stemmed from there – it was a natural progression.

16.7.2 Affordable Loss and Modularity

Hawkins family entrepreneurs have implemented their novel ideas by combining and recombining the family firm resources primarily so as to meet customer needs rather than to predict specific future financial returns. Specifically, the Hawkins family as a clan-like community has been able to flexibly deploy family human resources in a parsimonious way. As a consequence, the knowledge resources embedded in the clan have been passed across generations as a key capability. The Hawkins approach to avoidable loss has been to avoid "unaffordable losses" that, if incurred, could endanger the survival and/or continuity of the firm. This stemmed from a culture of ensuring firm survival, which was severely threatened by the actions of the second generation. In addition to foregoing maximized returns for

survival purposes, there has been a family-first orientation at the expense of a business-first strategy.

> Dad says to this day that he only ever wanted to not go broke. His motivation is that you don't go broke. Mum's motivation has always been she wants to give every child a job.

Deploying resources by giving every child a job was central to their approach to modularity which would ensure firm survival. This approach afforded the family the chance to forego financial maximization in the interests of non-financial "family-first" emphases: a form of affordable opportunity loss. This manifested itself in John's non-financial focus over a number of years.

> John never had anything to do with the financials. […] He wasn't interested in making money. […] I suppose he was interested in making money but not really focused on every aspect of the business.

The family-first approach, particularly during the reign of the third generation, yielded a set of human resources which could be flexibly deployed to achieve their survival objectives.

> My sister and I would work twelve hours a day, eight hours on Saturday and a few hours on Sunday. We both had little children. They would come to work with us every day.

This parsimonious use of family resources nevertheless helped generate unique knowledge resources which were later passed on to members of the fourth generation. However, the process was always driven by the inquisitive nature of the emerging fourth generation leader.

> My father actually did provide some guidance and encouragement. By that time [the late 1980s] he had definitely recognized that I was going to be the leader of the business and was giving me support and mentoring, definitely. It was always from my questioning though. It was never instigated by him.
>
> […]
>
> I would always run things by him, particularly because I was really interested in the accounts by then and numbers and making a profit. […] He'd give me good information. Some of it was family first information like "We do it because we love doing it and what else would we do?" which didn't really sit too well with me.

Over time there was a realization that knowledge had been acquired by the subsequent generation. This legitimated Roz's eventual command capability and is reflected in her formal leadership role.

> Less and less people would go to him. As time goes past, when you're in the leadership role, more and more people are employed by you and interact with you so they have less interaction with him.

16.7.3 Leveraging Contingencies and Self-organizing

As Sarasvathy (2001b, p. 6) points out, "greater entrepreneurial firms are products of their contingencies. Their structures, culture, core competence and endurance

are all residuals of particular human beings striving to forge and fulfill particular aspirations through interactions with the space, time, and technologies they live in." Hawkins entrepreneurs are seen to have continually imagined and adapted their business to meet fluctuating markets. In the late 1990s, they embarked on a more extensive set of connections through professional and other networks to further develop their knowledge resources and capabilities. The incumbent leadership at that time started making a series of "one step at a time" decisions about the systems and processes necessary to professionalize the family firm. These networks allowed the family's entrepreneurs to accumulate and act on contingent information in an enduring way reflecting the way the road transport industry in particular has changed and developed.

> 1997 is […] when we joined Trucksafe. Today it seems like it was such a simple program but it was part of a quality system and it got me thinking about systems and processes and position descriptions and doing things more professionally.
>
> […]
>
> I started talking to accountants and wondering about structuring the business.

Moreover, the information gleaned from these expanding networks actually prompted further development of the services the firm offered. Related diversifications such as the accommodation and retailing operations associated with Hawkins Fuels, the Port Wash facility, were specific responses to opportunities arising from the road transport safety agenda. In a similar vein, the new Moreton Island ferry was also inspired in part by safety and other market opportunities. With the passage of time and the growing command capacity of the incumbent leadership, these decisions became quicker. This is clear in the way Roz further developed the ferry side of the family business:

Interviewer: What was the cost of the MiCat, just in rough terms?
Roz: Including design and everything, $10 million.
Interviewer: So you were making a $10 million investment and your father was indifferent to it. Would that be how you'd describe it?
Roz: Correct, yes.
Interviewer: Symbolically, this is probably a significant transitional event?
Roz: Probably, yes. You don't realize it at the time but it was sort of like, well if I've made that decision, I am in total control. $10 million in 2002 was a significant proportion of the balance sheet.

16.8 Conclusions

In this chapter, we have integrated elements of two new perspectives on entrepreneurship to elaborate conditions that are conducive to entrepreneurial behavior: strategic partnerships inspired by empathy with customers, a flexibility of resource deployment mediated by the logic of affordable loss, and the leveraging of contingencies that create opportunities. We have also shown how these principles resonate with the more general descriptions of long-lasting family firms characterized by specific elements of the continuity, connection, community, and command priorities.

Their substantive missions highlight continuity. That is, long-lasting family firms have a meaningful picture which keeps the team together and facilitates a bias towards pragmatic execution. The strategic flexibility of family firms enables entrepreneurial behavior in which surprises are not seen as deviations from the path. Further, family firms make extensive use of networks to create order within fluctuating markets. Our detailed case has illustrated how one family enacted these principles and processes in an idiosyncratic fashion.

These theoretically grounded observations are now distilled in three propositions that reflect (a) who the entrepreneur is, (b) what the entrepreneur knows, and (c) whom the entrepreneur knows, respectively.

- *Proposition 1* FBEs empathize more strongly with customer needs by establishing strategic partnership than non-FBEs.
- *Proposition 2* FBEs display greater stability (complementarity) and flexibility (substitutability) through modularizing their resource bundles than non-FBEs.
- *Proposition 3* FBEs create more entrepreneurial opportunities by leveraging contingencies generated by their extensive networks than non-FBEs.

Progressing to the theory testing stage would involve moving the propositions, which have been developed in the context of our single case study, to testable hypotheses. We invite scholars to join this research initiative which would contribute to understanding entrepreneurial behavior in the family firm context.

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Chapter 17
Sustaining Family Wealth: The Impact of the Family Office on the Family Enterprise

Kirby Rosplock and Dianne H.B. Welsh

17.1 Introduction

While no one is sure of the precise origins of the family office, many experts agree that the first family offices resulted from large, European land-owning families who had sold their property and liquidated their assets (Hamilton 1997; Rankin 2004; Avery 2004). Avery indicates that the European family offices were embedded in the estate offices of French, British, and German nobility in the nineteenth century, and possibly earlier (Avery 2004). Even though the family office has been in existence in some form for at least two centuries, there is little academic research on the topic. The results of in-depth research have the potential to significantly impact both family businesses and family offices.

Even though there is no universally accepted definition of a "family office," the concept has been anecdotally identified by some organizations and practitioners within the wealth management industry who consult to or work for family offices (Hauser 2001; Habbershon & Pistrui 2002; Gray 2004; Rankin 2004; Rosplock 2007a; Jaffe and Lane 2004; Family Office Exchange (FOX) 2009; Family Wealth Alliance 2010; GenSpring Family Offices 2010). There is a significant opportunity for deeper exploration and understanding of the family office and why some families choose to start an office, join an existing multifamily office, or choose to have their wealth managed by a traditional financial institution. This chapter will help to clarify the role of the family office and its function in sustaining wealth.

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To that end, this chapter presents a two-part case study on the Harrison family[1] and discusses the issues, opportunities, and challenges a family can face as its transitions from a family-owning business to a family enterprise and integrates Entrepreneurial Orientation (EO) and Sustainable Family Business Theory (SFBT) to better define the role of the family office in managing the family's wealth and business affairs. In reflection to Part I of the case study, we discuss the background, purpose, and definitions of the family office and provide an overview of the typical services provided by a family office. We then provide an overview of some of the key literature from the wealth management industry and the context of family wealth as it relates to wealth transfer and sustaining a family's wealth. We also discuss the looming challenges of actually studying the family office phenomenon due to privacy, accessibility, anonymity, and limited population.

Part II of the case study takes us 3 years into the future of the Harrison family. We analyze the issues that have resulted as some of them chose to join a multifamily office while others made a decision to start a single-family office. Following Part II, we discuss opportunities for further research in family wealth and specifically how families are approaching collective wealth management. Tapping into insights gleaned from a recent international study that looked at the family business and the family office, we highlight the need and opportunity to conduct research on the family office and present theories that might be further explored in relation to the family office.

17.2 Harrison Family Case Study: Part I

The Harrison family ranch dates back five generations to when Bob and Mary Harrison migrated to the United States and claimed a large tract of land in the Midwest in the 1890s. The Harrison Cattle Ranch was established in 1901 and has been handed down from generation to generation. In 1955, the family authored a mission statement and created a code of family values that still serve as operating principles of today's ranch, that now encompasses 175,000 acres and has over 25,000 head of cattle. Family rituals are a significant part of the family culture and heritage, and the family has created a strong sense of community that extends beyond the usual confines of a business. Just before the annual shareholders meeting, a family rodeo is held. Family barbeques are a regular occurrence, and each summer, the entire Harrison family goes on a retreat to the family compound in northern Minnesota.

The family has always disseminated a generous biannual dividend to all of its shareholders. Unfortunately, however, the dividends have declined over the past decade as in-fighting and management disagreements have put two branches of the

[1] The Harrison Case is based in part on a real family; however names, places, and certain occurrences in the case have been fictionalized to protect the privacy of the family.

third-generation Harrison clan at odds. In 1985, three Harrison cousins disagreed with the decision of their cousin, Bob Harrison III, president and CEO of Harrison Holdings from 1967 to 1990, to sell off the ranch's calving operation. This operation was a major profit center for the cattle business, and as a result of the sale, the cattle operation's performance suffered for several years. This business disagreement also resulted in a schism in the family. From 1990 to 2008, two families – Bob Harrison III's family and his sister, Jennifer Harrison Reed's family – were not invited to participate in the family meetings and had to instead vote by proxy. Although the Harrison clan had intended on keeping the family enterprise intact in perpetuity, the rivaling branches continued to grow apart. After Bob Harrison III's death, his wife Jessica, his daughter Henrietta, and his sister, Jennifer, were able to mend the damaged relationship with the rest of the family. As a result, John Peter Reed (Jennifer's son) and James Cobun (Jessica's son-in-law) have both been welcomed to work in the family business.

In addition to Jennifer's son John and son-in-law James, Dash Reynolds, son-in-law of Mark Smith, also works in the family business. However, none of the three have been groomed to assume the CEO position. John is a CPA and CFP who works directly for the CFO of Harrison Holdings. James runs two of the family's top-producing agri-businesses, subsidiaries of Harrison Holdings. Dash is responsible for the Harrison Ranch and the cattle operation; in this role, he manages 30 cowboys and 20 ranch hands. While all three men exhibit leadership skills, none have been groomed to step in if and when the current nonfamily CEO Jim Bryan retires.

The family has made a decision that, after 100 years of ranching, they will divest 100,000 acres of the cattle ranch and sell 50% of the herd in order to build a fully self-sustained green senior living and retirement community. The family has a strong sense of stewardship for the land, and they want to make sure that the pristine beauty remains intact. They have received an offer from a green real estate developer who has secured financing and will only develop 17,000 acres, leaving the remainder for green space and pasture. In total, the proceeds from the sale will net the Harrison family $675 million – quite a return on Bob and Mary's original investment of $5,000.

The family holds a number of shared assets outside the business holdings that have particularly high sentimental value including the family compound in northern Minnesota. It is in dire need of renovation and updates. The family also owns a horse farm out west, where several of the families spend their summer vacations. As a result of the added liquidity they will soon have, many in the family are debating adding a private landing strip at the farm. Several of the families have interests in fractional jet ownership and feel the convenience of a dedicated landing strip would dramatically increase accessibility to the property. Some family members, however, feel the air strip is excessive and more of a luxury than a necessity.

The family will receive an initial lump sum of $300 million that will be distributed to each family unit based on percentage of ownership with the remainder will be paid out over 5 years. An additional $50 million will be used to fund a Harrison Family Foundation. The family has a number of different charitable interests, and it will be critical that the family solidify the mission of the foundation. The family is

both astonished and excited by the prospects this liquidity event offers. Although they have always lived comfortably, they have never had the level of liquidity that they will soon experience. Understandably, the family is anxious and unsure of how they should proceed with the management and investment of the individual shares.

To help the family identify options to handle their new wealth, John Peter Reed has hired Bill Thomas, a consultant with a JD, LLM and a CFA and CFP. At the next family meeting, Bill will present three different recommendations for the family to consider. First, the family can choose collectively to band together and establish a single-family office. Second, the family can join a multifamily office. The third option is to establish a private trust company.

For the first time since the death of Bob Harrison III, all members of the family will be in attendance at the family meeting. It will be the ideal opportunity to define the future of the Harrison Family, and to learn the intentions of the individual family members (Fig. 17.1).

17.3 Introduction to the Family Office

The phenomenon of many wealthy individuals and families opting to start or join a family office as opposed to investing with traditional investment institution has become an increasingly common occurrence (Lowenhaupt 2008). The family office has also become an option for affluent but lower threshold wealth level families through commercial family offices, multifamily offices, and/or virtual family offices.

While we have already discussed the lack of formal research on the origin and history of family offices, this portion of the chapter brings together a body of knowledge of industry publications, research, and scholarly literature to help understand the background, purpose, and definition of the family office and make the case for further research on the family office.

17.3.1 Purpose and Definition of the Family Office

What is the purpose and role of the family office? In a nutshell, it is to manage and oversee the wealth management affairs of highly affluent individuals and their families related to such issues as tax, wealth transfer, fiduciary oversight, investment management, governance, estate planning, risk management, compliance, communication, financial education, among other issues. A family office is generally defined as an organization that advises wealthy individuals and/or families on a diverse range of financial, estate, tax, accounting, and personal family needs (Bowen 2004). FOX (2009) defines a family office as “a unique family business that is created to provide tailored wealth management solutions in an integrated fashion while promoting and preserving the identity and values of the family” (p. 6). Similarly, Grace (2000) asserted that the family office “has a deep understanding of the planning, generational and tax issues so important to wealthy investors” (p. 54).

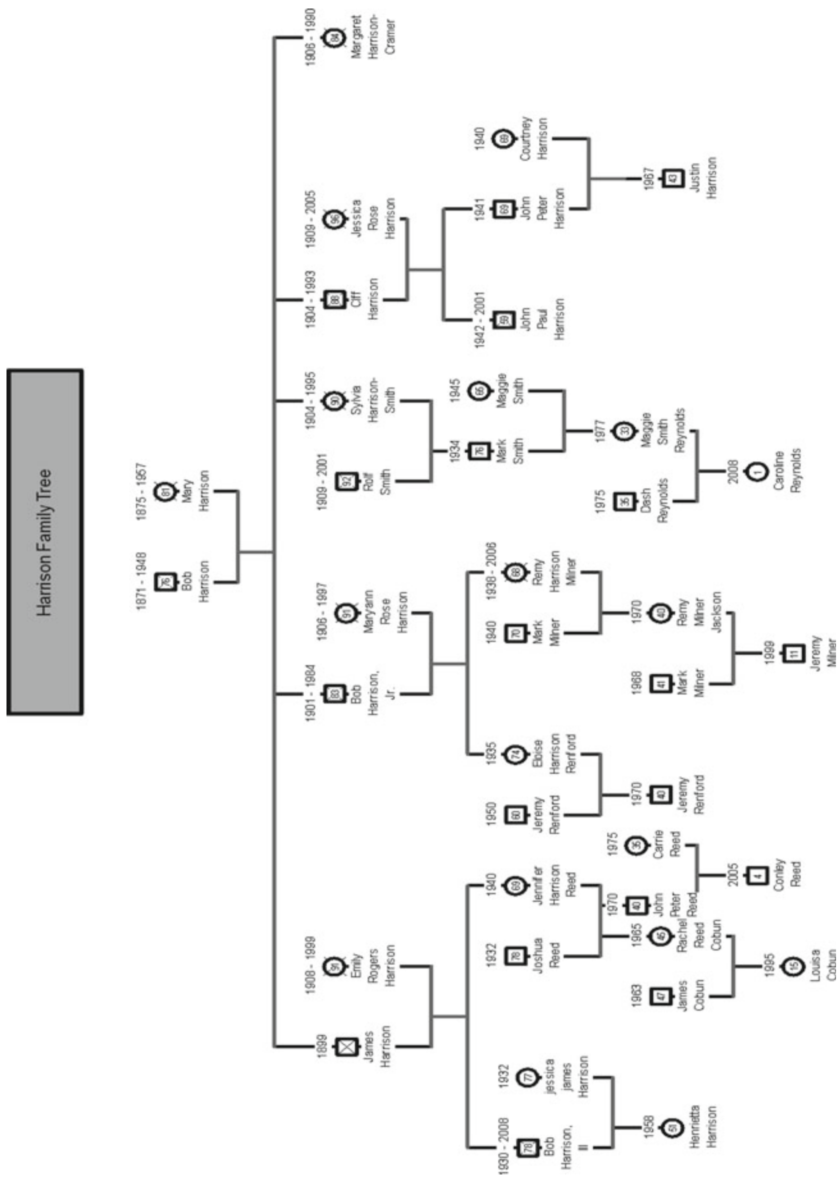

Fig. 17.1 Harrison family tree: part I

We define the family office as the strategic integrator and coordinator of all the wealth affairs of the family. This truly makes the family office different from other financial institutions because it is uniquely positioned to execute long-term strategic planning. The coordination, organization, and strategic planning of the collective wealth for a family over the long term and, for many, in concert with their family enterprise and/or the closely held business, are the primary responsibility of the family office. There are estimated to be from 2,500 to 3,000 family offices in the United States (FOX 2009; Hauser 2001; Shapiro 2002; Avery 2004), and an estimated 4,000–6,000+ family offices worldwide (Hauser 2009a; Rankin 2004; FOX 2009). Additionally, FOX estimates that as many as 6,000 or more informal family offices exist in the United States, Europe, and Asia in privately controlled businesses, many of which are family-owned and operated firms (2009). Family wealth advisors recommend a minimum asset base of $200–$300 million to establish a single-family office (Rosplock 2007a).

17.3.2 Literature Review of the Family Office

Very little scholarly research exists on the family office; however, professional organizations, financial institutions, and family offices have generated a preponderance of information and research on the family office (Family Wealth Alliance 2010; FOX 2009; GenSpring Family Offices 2010; Institute for Private Investors [IPI] 2010; Campden 2008a, b, 2009a, b, c; Spectrem Group 2001a, b, c, d, e). The pursuit of research by these entities is meant to help affluent families and family offices better understand the ever-changing landscape of family offices.

Specifically, the Family Wealth Alliance conducts an annual multifamily office study that explores the performance, growth, and challenges of these entities. In 2009, the organization conducted their inaugural study on the single-family office. FOX and the IPI, both private, professional organizations that provide education, investor information, and knowledge exchange for the affluent, have conducted research into investment performance, employee compensation, risk management, governance practices, and philanthropy, among a number of other topics, related to the functioning of the family office (FOX 2009; IPI 2010).

In 2009, Campden Research, a division of Campden Wealth, conducted a study exploring the challenges and evolution of the family office (2009a); they also conducted a separate study, sponsored by Merrill Lynch that focused on single-family offices in Europe (2008a, 2009c). Campden also sponsored a study that analyzed risk and how to protect the family fortune (2009d). And, in conjunction with Wilmington Trust, Campden conducted a study on women and wealth (2009b).

GenSpring Family Offices, a multifamily office, conducted research on the attitudes, behaviors, practices, and interests of affluent men and women, many of whom have a family office or are clients of a multifamily office (Rosplock 2007b, 2008, 2009a, 2010). As well, GenSpring Family Offices compiled information from many recognized leaders in the field to create a guide that highlights the contributions to

the thought leadership of family wealth (Rosplock 2009b). In 2009, GenSpring Family Offices, together with the Family Firm Institute, the University of North Carolina at Greensboro, and IESE Business School of the University of Navarra in Spain, sponsored an international pilot study exploring the relationship of the family business to the family office (Rosplock et al. 2010). Engaging 52 family members from prominent family enterprises, the researchers learned vital preliminary information on the role of governance, succession planning, and entrepreneurial spirit and characteristics of the business that influence the family office.

In contrast to the research of professional organizations, scholars and academicians have more keenly researched wealth in terms of family wealth and transgenerational wealth. Although wealth is most often viewed as physical or financial, some researchers and experts have expanded the definition to more broadly include the nonfinancial aspects of wealth. The concept of SFBT (Stafford et al. 1999) integrates the family, business, and community to better understand the role of the family in the family business enterprise and could more broadly be applied to the family office. The theory may be more applicable than most in the family business field because it focuses on sustainability rather than purely revenue. Much like the case study that utilizes SFBT to explain the Kozlovsky Dairy Equipment, Inc. story (see Chap. 14), the Harrison Family case can also be posited in SFBT for theoretical explanation.

17.3.3 Context of Family Wealth

In more recent literature, academicians, experts, and researchers have identified a more progressive concept of wealth, namely, that of "family wealth" (Collier 2002; Hughes 2004; Jaffe and Lane 2004). Comprising three forms of capital, Hughes defines a family's wealth as consisting "primarily of its human capital (defined as all individuals who make up the family) and its intellectual capital (defined as everything that each individual family member knows), and secondarily of its financial capital" (p. xv). Collier, on the other hand, defined family wealth as having four components: human capital, intellectual capital, social capital, and financial capital. Collier noted:

> *Human capital* refers to who individual family members are, and what they are called to do; *intellectual capital* refers to how family members learn, communicate, and make joint decisions; *social capital* denotes how family members engage with society at large; and *financial capital* stands for the property of the family (p. 6).

Although Collier (2002) and Hughes (2004) varied slightly in how they defined family wealth, both researchers emphasized that wealth is not simply material. Rather, family wealth considers the broader aspects of wealth as it relates to the individual (human and intellectual) and as it relates to community and society (social). This derivation in the concept of wealth has been influenced by intergenerational wealth transfer and the rapid global increase in assets being transferred from one generation to the next.

17.3.4 Impact of Wealth Transfer

Family wealth has a deep impact on various generations; thus, the role that wealth transfer plays in sustaining wealth across generations is key. Havens and Schervish (1999) estimated that approximately US $41 trillion to $136 trillion will pass from generation to generation in the time span between 1998 and 2052. This figure is staggering, considering that 2.8 billion of the world's 6 billion people subsist on less than US $2 per day (Synopsis of the World Development Reports 2004). Despite the recent downturn in the economy, 70% of baby boomers have reached the age of retirement. Although some are delaying retirement, a large number of them are making wealth transfer preparations, which will initiate one of the largest wealth transfers in known history (WWR 2004). Researchers have found that men and women want to distribute their wealth as follows: approximately 60% to children, grandchildren, and stepchildren; 14% to siblings; 12% to charities; 7% to taxes; and 7% to other individuals or entities (Rosplock 2007b, 2008, 2009b). An earlier study (Havens and Schervish 1999) found that affluent families expect to divide their wealth in other ways: 46% to heirs, 17% to charities, and 37% to taxes. However, they would prefer that their assets be distributed as 65% to heirs, 26% to charities, and no more than 9% going to taxes (Schervish and Havens 2001). These differentials in expected as opposed to desired wealth transfer reiterate the strong family instinct to want to provide greater financial means for the next generation.

The desire to pass wealth to the next generation correlates to Habbershon and Pistrui's (2002) discussion of the concept of "transgenerational wealth – a continuous stream of wealth that spans generations [that] requires a family ownership group to achieve at least market-based returns on their assets over generations" (p. 223). In 2004, only 50 names from 1982 still remained on the Forbes 400, indicating that the likelihood of sustaining wealth from generation to generation is a mere 13% (Lagomasino 2004). Habbershon and Pistrui (2002) propose that, to properly study the concept of transgenerational wealth creation in relation to the family enterprise, researchers should study the family as the unit of analysis rather than the business. Habbershon and Pistrui purport that when owners who are principals and managers are acting as agents execute their role, wealth is created. They also go on to posit that, when the family ownership group assumes a collective "family-as-investor" posture, performance is enhanced over the long term. Further, they hypothesize that the family ownership group who employs entrepreneurial strategies will perform better over the long term. The combination of entrepreneurial strategies coupled with an investor mindset will help families perpetuate wealth down the generations, both of which are also impacted by the "dynamism in the market" (Habbershon and Pistrui 2002, p. 234). The propositions set forth by Habbershon and Pistrui emphasize the shift from a focus directed only on studying the family business as the unit of analysis to understanding the family system and the implications for attitudinal and behavioral changes as it impacts performance, wealth transfer, and the continuity of the family's wealth.

With this base understanding of the multifaceted aspects of wealth, one can begin to lay the foundation to understand the global landscape of the wealthy. As a result

of the complex integration of financial, human, and intellectual capital, a holistic approach to wealth management must be the primary function of the family office. Families are becoming more aware of the investment required in mentoring and education to prepare family members to be enlightened owners so as to sustain wealth across generations (Goldbart et al. 2003a, b, c, 2004; Hausner 1990; Jaffe 2003a, b; Jaffe and Lane 2004).

Of areas of wealth *not* related to investments, inherited wealth and the often-resultant sense of entitlement are more widely studied (Blouin and Gibson 1995; Bronfman 1987; Burka 1985; Frankfort 2003; Freeman 2004; Gallo and Gallo 2002; Grossman 1990; Hausner 1990; Holub 1995; Kristal 1991). Nearly all studies have reached the same conclusion: it is critical to mentor and prepare heirs for the responsibilities of wealth. Mentoring includes preparing beneficiaries and trustees, providing financial and lifestyle education to heirs and family members, and providing education on understanding and interpreting account statements of a company balance sheet. Preparation also comes in the form of communication and knowledge transfer. In a study exploring the knowledge, practices, communication, attitudes, and awareness of women and men regarding their wealth, 65% of the women and 47% of the men indicated that they had talked to their children about their inheritance (Rosplock 2009a). The vast majority of men (90%) and women (95%) indicated that having their children achieve financial independence was very important to them (Rosplock 2009a). Thus, the family office is not only a central point to manage the family's financial wealth, but also an important construct to aid in the grooming and development of the family's human and intellectual capital, namely, its next generation of leaders.

17.4 Challenges to Studying Family Offices

There are a number of inherent challenges to studying the family office. First, anonymity, privacy, and secrecy are the hallmarks of these institutions, and open access is virtually not an option. Second, the field has not adequately defined the concept of the family office. As a result, there has been a lack of understanding of what actually constitutes a family office and how families define it (Shapiro 2002). Because families define the office in different ways, they may not consider the private, personal employees who manage their wealth as constituting a family office. Similar to family business identity issues (Chua et al. 1999), a number of families have what researchers would consider a functioning family office, but the family itself does not. Another significant challenge to studying this phenomenon is the relatively small sample size. With only 6,500–7,500 family offices worldwide, and perhaps hundreds more that are family offices, but do not identify as such, the population necessary for larger empirical study is simply not there. Lastly, the wealth management industry has taken notice of the public's interest in the family office; as a result, a number of traditional institutions, wealth advisor boutiques, and asset management firms claim to provide "family office services." In fact, they

are virtually providing the same services they always have, but have repackaged them to appeal to those interested in a family office solution. This type of rhetoric further confuses the layperson and makes it difficult to truly discern what is, and what is not, a family office.

17.5 Harrison Family Case Study: Part II

Three years later, we find that the descendants of James and Emily Harrison decided to join First Watch Family Offices, a multifamily office. The remaining family decided to join together and collectively manage their wealth by establishing Harrison Family Offices – a single-family office.

Part II of the case study updates the reader to the present-day issues, opportunities, and challenges that the two different family groups face.

17.5.1 Joining a Multifamily Office: First Watch Family Offices

For a number of reasons, the descendents of James and Emily Harrison decided to go in a different direction from the broader family and become clients of First Watch Family Offices, a multifamily office. First, they recognized that they had different needs and desires of the family office than what the broader family was able to afford with the start-up of the single-family office. They were also happier with the 0.85% asset management costs of the multifamily office vs. the 1–1.25% operating cost of the single-family office. Further, they were interested in the broader service platform of the multifamily office, including experts on staff in governance, philanthropy, conflict resolution, and lifestyle planning – experts the single-family office would not be able to hire. Family issues played a part in their decision as well. The history of family squabbles drove a desire for privacy in the management of their wealth affairs. They also had concerns about Justin Harrison, the family member chosen to oversee the wealth management affairs of the single-family office. Although Justin was trained as a CFA and is working toward a CFP, he had no real experience managing wealth at the level the family was experiencing at that time.

The descendents of James and Emily Harrison are working on a number of long- and short-term family wealth issues. Jessica Harrison is revising a portion of her estate plan following the death of her husband. She is also looking for advice on ways to establish Grantor Retained Annuity Trusts (GRATs) in order to get additional funds out of her estate and transferred to her daughter Henrietta.

Joshua and Jennifer Reed are taking advantage of First Watch's best practice to encourage open dialogue related to wealth transfer. They want to educate their children and the children's spouses about the wealth transfer planning they have instituted and have scheduled a meeting to do so. James and Rachel Cobun will also be

having a meeting with their daughter Louisa, to relay their expectations of her as a "responsible wealth inheritor" and to discuss some of their wealth transfer plans.

For the family as a whole, First Watch is conducting a capital sufficiency analysis, an exercise to analyze the family's current cash flow from holdings and investments over a certain time span to determine if the family will be able to live long-term on their current spending habits. Finally, First Watch is assessing the cost of capital improvements to the Minnesota compound to help determine if the Harrisons and Reeds should consider selling their interests in the properties.

As a First Watch client, the family has identified a number of benefits and some challenges. Many of the family members are attending regional learning events with other First Watch client families. They are able to share and learn with peers about such issues as estate planning reform, lifestyle planning, next-generation education, financial reform implications, wealth transfer mechanisms, and much more. The family has realized that the investment platform of First Watch is more robust – with the increased scale of collective assets of First Watch ($10 billion), the company has more avenues and opportunities to invest in more specialized funds. First Watch does not sell investment products and is not incentivized by selling, which keeps their advice uncomplicated and transparent. This gives the family peace of mind that the First Watch advisors are on their side when addressing complex wealth objectives and long-term goals.

On the other side of the equation, there are some potential concerns. As the First Watch multifamily office continues to grow, will there still be the high level of personalized service that they have come to appreciate? Will they still have access to their advisors when they need them? What happens if there is a change in leadership or when there is employee turnover?

Despite these concerns, the Harrisons and Reeds are very pleased with the service they are receiving. They are able to draw on a breadth of resources and experts in governance, private equity finance, meeting facilitation, conflict resolution, mentoring and education of the next generation, tax, legal, fiduciary services, and more – options that would likely not be available to them with the single-family office.

17.5.2 Starting a Single-Family Office: Harrison Family Offices

The start-up of Harrison Family Offices was an exciting and daunting challenge for the Renford, Smith, Milner, and John Peter and Courtney Harrison families. Many reasons went into their decision to band together and start the single-family office. First, they felt it was an important part of their ongoing family legacy to collectively manage their wealth. They appreciated the cohesion and integration of managing the family's collective wealth and the opportunities that economies of scale provided them. For the right to have total oversight, control, and ultimate privacy, they were willing to pay 1–1.25% annually to own and operate a family office. They want to replicate the level of service they have experienced in their family business in their family office.

Harrison Family Offices is busy addressing a number of issues. They are working to establish a family council that will discuss and further refine the mission of the family office. They have hired an outside consultant to aid them with the development of the council. The consultant is highly recommended and will pull together the governing documents, schedule the meetings, and draft an initial charter for the family council.

In addition to establishing the family council, the family office has created an investment advisory committee that will discuss ongoing investment opportunities, establish benchmarks, and review the family portfolios against those benchmarks. The family embarked on a yearlong, in-depth search to identify the key nonfamily experts who would comprise this advisory committee. The committee members are paid handsomely to provide conflict-free advice to the family investment team.

Each family unit within the Harrison Family Offices is addressing specific family wealth issues. The Smith family is revising two of their four investment policies for their Generational Skipping Trusts (GSTs). The John P. Harrison family is conducting further due diligence on the costs and liability associated with building the airstrip on the family ranch. The Renfords are working with their son, Jeremy, to draft a prenuptial agreement, based on his desire to propose to his girlfriend of 3 years.

There are a number of special benefits afforded to the Harrison Family Offices members. The family wants to groom Justin Harrison, a CFA who is working toward his CFP designation, to move into a leadership role in the family office. They have identified and hired two retired single-family office presidents to mentor him. The family has contracted an outside consultant to explore the family's values to help establish the family's philanthropic mission and see the family foundation as an important component of their shared identity and legacy. They relish the strength of the relationships they have built with their advisors and appreciate the total dedication of their staff to the unique needs of the family. Customization is just part of the delivery of all services in the Harrison Family Offices.

Even with the positives that have resulted from owning and operating the single-family office, a number of unforeseen challenges have arisen. The start-up costs have been significant. While the hiring of the various consultants and the investment advisory board were necessary investments to build the infrastructure, they were more costly than initially anticipated. There are concerns of nepotism if Justin Harrison assumes full responsibility over the family office. There are fears of nepotism if Justin Harrison is tracked to take over the family office. There are questions about the economics and long-term viability of the single-family office. Will they earn enough from their investments to grow and offset their operational expenses? How can they innovate and adopt an entrepreneurial mindset to further grow the family wealth?

The opportunity to work together as a family to build the family office has proven to be rewarding, but it has also created the reality that the family has, in essence, created another family enterprise. They are feeling the growing pains that arise when different families need different services – what should the family pay to provide for all family members and what services should they outsource? (Fig. 17.2)

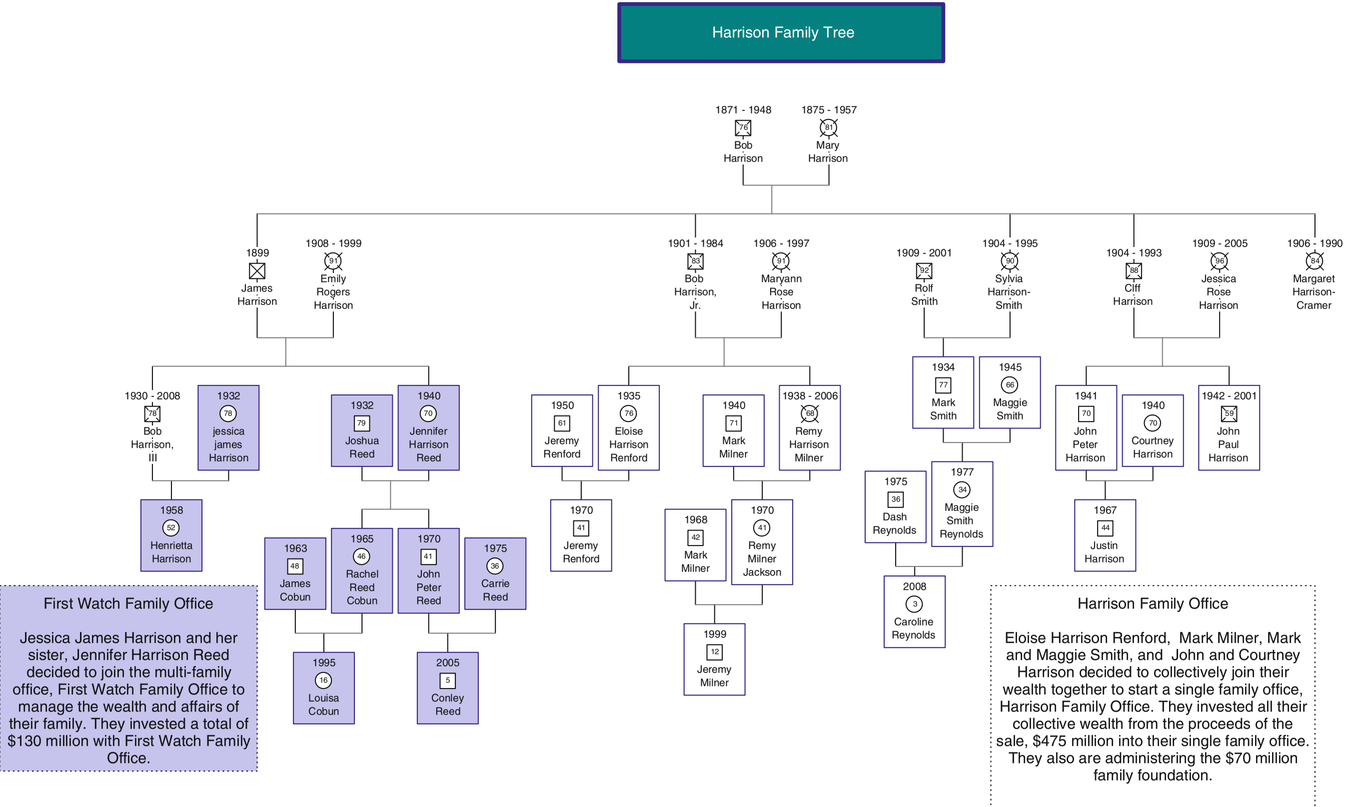

Fig. 17.2 Harrison family tree: part II

17.6 Case Study Discussion and Areas for Future Research

The following sections discuss the major issues evident in the Harrison Family case study and provide areas for future research and discussion.

17.6.1 Vision, Mission, and Code of Family Values

One of the key issues of the cast study revolves around the family's decision to sell 100,000 acres of the original cattle ranch and 50% of the herd. The mission and code of family values as it was drafted in 1955 reads: "We the descendants of Bob and Mary Harrison will work to uphold the family's core values of hard work, honesty, integrity, environmental stewardship, and the highest ethics to the ongoing operations of the Harrison Family Enterprise. The Mission of the Harrison Family is to continue to grow and evolve the Harrison Family Holdings and to remain united as a family to the benefit of the shareholders in a manner that is commensurate with the family's core values." Is this decision to sell a large portion of the ranch in keeping with the family's core values and mission?

Is the decision of one branch of the family to separate their wealth management affairs in line with the family business values and mission? Some may argue that the mission and code of family values is no longer applicable or important. The question remains if either of the two family groups will incorporate the mission and code of family values into their respective future management strategies, or if it is even possible to do so, given the split. If the mission and values are deemed important enough to be preserved, how will they go about implementing or revising the core principles? There are, by nature, major differences in goals and objectives of the multifamily office compared to the single-family office. The relationship between the family business and the management of the family's wealth is an interesting paradigm that requires further exploration in the field. Additionally, research needs to be conducted concerning the vision and mission of the family enterprise and what role, if any, these play in the family office from one generation to the next.

Alfred Chandler would be most interested in these questions. Chandler is most often credited as the founder of strategy, along with Kenneth Andrews and Igor Ansoff. His 1962 publication, *Strategy and Structure* is considered the seminal publication in the field. Chandler's background as a business historian set him apart from Andrews and Ansoff and made his perspective unique – and applicable to family offices. As a keen observer of business, he saw the realities of the day-to-day challenges faced by businesses; he coupled this knowledge with the complex realities of strategy and its preoccupation with empirical detail. He was known for his rich engagement with the practice of management (Whittington 2008). While Chandler's work focused on the roles and functions of the railroads, he transferred this work into a greater, overarching perspective, defining strategy as "the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these

goals" (Chandler 1962, p. 13). In this definition lies the connection of the mission of the family office to the overall mission of the family enterprise. If Chandler were here today, he would be adamant about the importance of a clearly defined vision and mission of the family office tied to the family enterprise. The organizational capabilities would provide the internal dynamic for the continuing growth of the family office (Chandler 1990). Examining Chandler's strategic theories in relation to the family office is yet another area ripe for research.

17.6.2 Socioemotional Wealth

Does the entire Harrison family still vacation at the ranch out west? Do they still participate in family retreats at the Minnesota compound? It seems that the Harrison family's socioemotional wealth may be lost. Socioemotional wealth refers to "non-financial aspects of the firm that meet the family's affective needs, such as identity, the ability to exercise family influence, and the perpetuation of the family dynasty" (Gómez-Mejía et al. 2007, p. 107). Socioemotional wealth, if lost, means that there is little intimacy among the family, the status of the family is reduced, and in this case, may be eliminated altogether. Does the Harrison family still have an identity as a result of the partial sale of the ranch? What role, if any, may the Harrison Family Offices provide in redefining the family's enterprise identity? Does anyone even care anymore? This is a research theory that could be applied to the family office and broaden facets of the family office previously not explored.

17.6.3 Familiness

Familiness and its application to the family office is an area ripe for further research. The concept of "familiness" was originally introduced by Habbershon and Williams (1999) who described it as "the idiosyncratic firm level bundle of resources and capabilities resulting from the systems interactions" (Habbershon et al. 2003, p. 451). In the context of the Harrison case study, familiness refers to the "… resources and capabilities related to family involvement and interactions" (Chrisman et al. 2003, p. 468). For our purposes, distinctive familiness describes a positive, cohesive influence of the family. Does it matter to the current generation? Should it? What are the intentions of the two families and what are the long-term effects on the socioemotional wealth of the family? It is not clear in the case study whether any attempts will be made to preserve the Harrison's sense of "familiness." Understanding the nonfinancial implications of wealth is critical to understanding the viability and sustainability of the wealth (Habbershon and Pistrui 2002). A greater understanding of socioemotional wealth and human and intellectual capital on a family's shared identity, and sense of "familiness" are other areas for deeper exploration by researchers.

17.6.4 Leadership and Succession

The Harrison Family case study reveals an obvious leadership schism among the family members. One branch of the family signs on with the multifamily office, in part, because they are not comfortable with Justin Harrison as the successor family leader of the single-family office. The other branch of the family, fearing a loss of control, is willing to mentor and groom Justin to take the leadership role. Despite Justin taking the steps to obtain his certification and his willingness to be mentored, there are larger, underlying issues at play – issues concerning trust, governance, control, and leadership succession. Part I of the case study reveals a history of leadership challenges stemming back to the executive search following the unexpected retirement of Bob Harrison III. The case study suggests that single-family offices have larger issues regarding leadership succession than multifamily offices do. Who will be groomed to succeed Justin Harrison? How will subsequent leadership transitions be handled so as to avoid another schism? There is ample opportunity to further understand leadership succession in the context of the family office. Cogliser and Brigham (2004) examine leadership in light of entrepreneurship. While leadership theory is assumed to be a "mature field" (Hunt and Dodge 2000), leadership theories have yet to be applied to the family office and their executives. It is our recommendation that leadership theory be applied to the family office. An important area for further study is how family members who aspire to leadership roles are professionalized, and more specifically, how successors are mentored, trained, and groomed to assume an executive role.

17.6.5 Employment Issues

There are a host of issues that relate to employment, compensation, and career path development in the family office. Single-family offices have unique concerns when hiring, incentivizing, and retaining key employees. In particular, single-family offices typically do not have the ability to provide career paths for employees the way that a larger, scaled organization, such as a multifamily office, does. But, how are employees in a multifamily office incentivized? What role, if any, do equity incentives play? This is a particular area of concern when multifamily offices are providing advice only, and not selling products through which commissions are typically earned.

Just as with the family business, issues of nepotism can arise within the single-family office. This can impact the advancement of nonfamily employees. Thus, the single-family office must be sure to balance opportunities and human resource issues for family and nonfamily employees. Further research on employment, compensation, and career path development is critical to understanding operational efficiencies within the family office. Similarly, understanding employee satisfaction,

commitment, and culture may help reveal the possible different levels of satisfaction and commitment of employees in a single-family office vs. a multifamily office. Researchers may want to take this exploration one step further and analyze whether satisfaction and commitment levels differ between family and nonfamily employees in the single-family office. What reward, retention and motivation techniques are the single and multifamily offices using? There is a dearth of literature on human resource management in relation to the family office; this area in particular is rich for research exploration in terms of the family office as a small/medium enterprise.

17.6.6 Governance

Governance at the corporate level is critical to the success of businesses. Understanding the optimal governance process for single-family offices may help lead to maximum collective wealth management. Does the family want to spend everything in a single generation or do they want to sustain the wealth over multiple generations? The governance structure and process will vary significantly when a single generation is involved vs. multiple generations (Hauser 2009b). Part II of the Harrison case study touches on the different approaches that each branch of the family is taking to address the decision-making required for the wealth. The Harrison Family Offices, by the establishment of a family council, a shared philanthropic mission statement, and the identification of advisors for their investment committee, is approaching wealth management from a more collective approach. Berent and Uhlander (2011) examine governance in terms of family teams that could be applied to the family office, if it is viewed as a team. They also identify many of the issues identified in the Harrison Family case study in terms of what happens when a "team" gets divided and what issues evolve as a result.

In 2004, Jaffe and Lane identified four stages in the evolution of the family business and discuss issues pertaining to all stages, and especially the last stage – the family dynasty – the stage the Harrison family is currently in. Jaffe and Lane (2004) discussed the formation of a family office, the participation styles of the family members, and how those differing styles can impact the success of the transition from one stage to the next. Which decision-making processes work best in single-family offices and which work best in multifamily offices? Do they differ or are they similar? The entire wealth management strategy of the family office can have a major impact on the entire lifestyle of its members. A long-term view vs. a short-term view will clearly affect decision-making processes, governance, and overall strategies for investment policy and formation, wealth performance, asset allocation, risk taking, estate planning, wealth transfer, and tax consequences. How will these factors be managed over time and by consecutive generations? How will risk profiles or risk parameters change? Will the intentions of the family members change? Longitudinal studies that examine these issues are desperately needed.

17.6.7 Corporate Entrepreneurship

Understanding the operational efficiencies and viability of the family office is important to the field and sustaining the family wealth. Corporate entrepreneurship theory that examines survival, profitability, and growth (Rogoff and Heck 2003; Salvato 2004) in terms of the family office has yet to be explored. This theory could be applied to the family office in the same vein that corporate entrepreneurship refers to the entrepreneurial activities within organizations that change their competitive profile in one way or another, such as investment mix, wealth options, partners, or adding new product or service divisions (Zahra 1995, 1996). Kellermans and Eddleston (2006) identified corporate entrepreneurship as an under-researched theory to explain family business. The same holds true in regard to the family office. The Harrison Family case study discusses a cost issue between the multifamily office (0.85%) and the single-family office (1–1.25%). While one branch of the family did not feel that 1–1.25% was acceptable for the single-family office, other branches did. For this family, the question of what is reasonable now vs. what is reasonable over time results in two different answers. What impact does inflation, estate tax, and macroeconomics play on the viability of the business model in regard to corporate entrepreneurship? In the case of the Harrison Family Offices, does the family have adequate wealth over time to maintain the single-family office? What is the optimal diversification of liquid vs. illiquid wealth?

17.6.8 Entrepreneurial Orientation

In terms of sustaining the family over time, what role does entrepreneurship play in growing the family's wealth? Does the family need to create new divisions, make acquisitions, and start new branches of their initial family business to sustain over time? Entrepreneurial Orientation (EO) has been applied in numerous studies to family business (Miller 1983; Miller and Friesen 1983; Lumpkin and Dess 1995, 1996; Covin and Slevin 1991; among others). However, the construct has yet to be applied to the family office. There is also a question of which is the best measurement to use in terms of the construct differences (Covin and Wales 2011) to measure EO in the family office. A 2010 study looked to identify the role of EO in sustaining the family's wealth through generations and assess the importance of EO in the family's investment and ventures (Welsh et al. 2010). While Jaffe and Lane (2004) identify the entrepreneurial stage as the second of four stages in the family business that has a beginning and an end point, we have found that, unless the family business as well as the family office is entrepreneurial in terms of wealth creation, starting new divisions, and other approaches over time, neither the family business nor the family office will survive. In other words, the family office must stay entrepreneurial. What processes are involved in maintaining the entrepreneurial spirit over time and how is this spirit passed from one generation to the next?

Single-family offices have the added management cost structure that multifamily offices are able to scale and offset to their larger pools of clients (Hauser 2008). How does this affect entrepreneurship? In other words, should researchers be examining the single-family office as another family business in and of itself? Is the Harrison family viewing its newly formed single-family office in this way? Managing the family business with an entrepreneurial orientation toward taking calculated risks, being proactive, and innovative are likely to be key for long-term success and viability.

No study has been published that addresses the question of whether greater wealth is amassed when families invest collectively or individually. From an investment performance standpoint, are those who are investing collectively really outperforming those who are investing individually? What is the added value of investment managers in a single-family office vs. a multifamily office? Just as we each have our own unique DNA, each family office has its own unique profile and investment performance profile. As a result, it is difficult from a research perspective not only to acquire financial data from family offices, but also to analyze and compare the data. Estate planning, legal and compliance constraints add to the challenge, as do differing intentions, time horizons, asset allocation, and performance measures. Clearly, there are opportunities for further research as they relate to the long-term sustainability of the family office.

17.6.9 Legacy and Philanthropy

Legacy is an important component of the Harrison's single-family office. In the Harrison case study, the single-family office also manages the family foundation – another important aspect of the family's legacy. While it is true that there are positive tax aspects for the family, the foundation takes time and resources that must be adequately managed to ensure a balance between the costs and benefits. Studies have revealed that philanthropy and the role of a family's foundation can be important to the family's legacy. Although there is a greater preponderance of research in philanthropy and foundations (National Center for Family Philanthropy 2010; Council of Foundations 2010; University of Indiana, Center on Philanthropy 2010; Center for Wealth and Philanthropy, Boston College 2010), more research is needed to understand the complex nature of the relationship between the role of the family office in aiding in philanthropic endeavors and family foundations. In addition, with the rise of social entrepreneurship interest and research in the last 10 years, the intersection between social entrepreneurship and the family foundation is a ripe area for study.

17.7 Conclusion

Despite the recent global economic recession, the tremendous wealth that has been generated in the last several decades has given rise to the family office as a wealth management and sustainability vehicle. With the burgeoning growth of the family

office, there is a critical need to further study and understand this phenomenon. Even from its roots, the family office is shrouded in mystery, with very little knowledge of its true origins. Today, the family office continues to evolve in various forms – the single-family office, the multifamily office, the virtual family office, and the commercial family office. As it grows, it becomes a more widespread and visible option for affluent families looking to address wealth needs that extend beyond finances. Family enterprises are, and will likely continue to be, the largest driver of our global economy. How these families sustain and perpetuate their wealth across generations has global ramifications across all economic strata. A recent article in *Forbes* summed it up quite succinctly:

> Think of the wealthy as the main engine of the economy: When they buy more, the economy hums. When they cut back, it sputters. The rest of us mainly go along for the ride (Aversa 2010, n.p.).

In the last 3 years, economic indicators have shown that the ultra-affluent have cut back on a majority of their spending. Further, a phone call in June of 2009 by Warren Buffet and Bill and Melinda Gates resulted in 40 ultra-high net-worth signers pledging to donate half of their net worth to charity, either during their lifetime or upon their death (Frank 2010; Loomis 2010). Regardless of whether this is merely a chance for the individuals to decide where their wealth goes rather than allowing the government to make the decision for them, the implications are significant – for the family office, the wealth management industry, and the future of philanthropy as we know it. These factors shine a bright light on the impact of the ultra-wealthy and the need to understand how they manage their wealth through the family office. This is a rich area for study for the practitioner and the researcher and has relevance to everyday life.

Through the presentation of the real-life story of the fictitiously named Harrison family, we have illustrated the complex issues that come into play with the family business and the family office and identified some of the major differences between the multifamily office and the single-family office. We have highlighted the broader areas of research and related facets for study. Underlying all these opportunities, however, is the question of how we get the data. How do we get competing investments companies and financial institutions with differing specialties and markets to share their information? How do we get family offices, that are by design, private, to release their information? And once they do, how do we compare the data? It is not simply a matter of acquiring the data per se, but coming up with commonly accepted definitions to use when identifying the sample. Neither a multifamily office nor a single-family office is defined in the same way by practitioners in the field, those who have a single-family office, or those who are members of a multifamily office, let alone academia. These barriers have led to lack of research in the area. However, the relevance to everyday life and our futures makes the continued effort to generate study of the family office one that is worthy of attention to scholars and practitioners as the implications to sustaining family wealth are immediate.

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